

Challenge

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from the editor

a personal note

■ THE EXCITEMENT over the Wisconsin primaries was only the first stirring of the unusual amount of public interest that will accompany this year's political campaign. This may sound overly optimistic, but I have a feeling the increased public interest will express itself in a better informed and more discriminating fashion than ever before.

What I am saying essentially is that the political campaign coming up will be the first full-scale test of a new public maturity. We may even elect a statesman who does not have to resort to the tactics of a politician. Perhaps not being a politician will turn out to be the biggest asset of a candidate.

This opinion is not based on what happened in Wisconsin. It is based on what did *not* happen. Democrats did *not* stay home despite the lack of clear-cut issues between Senators Humphrey and Kennedy. Republicans did *not* forget the primary because their unopposed candidate did not even campaign in the state.

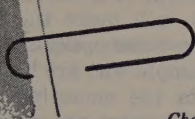
So much for the aroused public interest. What about the discriminating electorate I spoke of? Some might say that if anything the Wisconsin primaries showed the voters more than ever responding to un-discriminating prejudice. Apparently the farmers voted as farmers, Catholics as Catholics and Protestants as Protestants. And issues had little to do with the outcome.

To my way of thinking this does not disprove my hunch about the new public mood. The fact is, the Wisconsin electorate was offered little in the way of alternatives. The public chose to vote along old and familiar personal lines because there was nothing else to vote for. The hunger to vote was present and it had to be satisfied with whatever morsels happened to be around at that time.

To be sure, no candidate could have gone into Wisconsin, or anywhere else, and done well even while violating the sensibilities of large blocs of the constituency there. This would be as bad as actively or tacitly playing up to such sensibilities, and not nearly as effective a way to get votes. But a candidate with ability and dynamic imagination who could present the issues, as he sees them and in terms of the local stake in the national interest, would have done as well, if not better, as the men who tested their popularity in Wisconsin.

The public is in the mood to ask serious questions and entertain serious thoughts. It is not happy about the shape of some of our labor unions. It has grave doubts about the status of our agricultural community. It is anxious for a new approach to world problems. It wants a workable formula for the many stale-mated issues rising out of our federal structure. And it doesn't want any radical departures to alleviate these problems.

The man who talks straight about these issues and balances all the pros and cons of the possible compromises, before the public, will get the kind of endorsement that politicians have been telling us is not possible for the man who wants to win.—H.B.



letters TO THE EDITOR

*Challenge invites your comments. Address letters to
CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.*

Myopic magnates

• Your recent article by *The New York Times'* labor reporter, A. H. Raskin ["The Steel Settlement Was No Bargain," March, 1960] was a succinct analysis of the breakdown of collective bargaining in the steel industry. The strike, which saw two equally powerful economic groups grappling for power at the public's expense, could certainly have been avoided. The average steelworker would have been less than enthusiastic about striking for higher wages or fringe benefits. But when Roger Blough [Chairman of U.S. Steel], who prides himself on being a practical businessman, tried to increase management's role in work rules changes, these same men responded with an almost fundamentalist fervor. The steel magnates, who spend millions for the best industrial relations and legal minds, were incredibly myopic in their misjudgment of both the union's strength and the rank and file's attitude on the work rules question. They also failed to realize that they would get very little aid from the Republican Administration in an election year—even behind the scenes. It is unbelievable that men with such little vision are run-

ning one of our most vital basic industries.

HAROLD WINSTON

Louisville, Ky.

Economic flexibility

• CHALLENGE does a good job in pointing out the problems involved in the operation of our economic system. Those of us at the grass roots are alarmed at the trend toward eliminating as many production jobs as possible.

We seem to be heading for an economy consisting of four classes of people. At the top would be those who live from investment in stocks and bonds. Class two would be a group of trained technicians having nothing less than a bachelor's degree. The third class would be employed in the service industries, and poorly paid. The fourth and largest class would consist of the unemployed, the partly employed, those eking a living from subsistence farming and a large number engaged in criminal activities. The criminal element will increase by leaps and bounds. There are, at present, millions of unemployed people whose plight is looked upon with a shrug of resignation by most of those people who could help.

We suppose it is the policy of CHALLENGE to confine itself to the workings of our particular economy, but should we not take a good look at the two sacred cows that are labeled "capitalism" and "communism"? Both systems are so inflexible as to make progress impossible. Communism cannot deviate from the line of central control. Nor can capitalism deviate from the profit motive.

There is a solution, however. It would produce no Utopia but make for a more flexible economy and give people an interest in the occupation in which they make a living.

We hear the word "cooperation" a lot these days, but it is always a one-sided affair, a sort of "why don't you cooperate with me so that I can make more profits." Would it not be possible to take the good of our two major systems and place our manufacturing, farming and mining on a true basis of cooperation under our democratic form of government?

The cold war will not be solved by the force of arms, but by the flexibility of applied economic ideas. Can anyone be foolish enough to believe that communism can eliminate capitalism (and vice versa) and still survive?

EMIL ERICKSON

Bessemer, Mich.

No giveaway

- To quote Henry G. Aubrey ["Sharing the Burden?"] in your March, 1960 issue: "About \$1 billion [of U.S. foreign aid] represents payments we have received from the sale of our agricultural surpluses in underdeveloped countries and which we have turned back to them in the form of aid. This sum, then, is really not a foreign expenditure at all, but the

consequence of our costly program to support American agriculture."

Well, if the farm program is so "costly" why not return the \$1 billion from the sale of surpluses to the Commodity Credit Corporation? In that way there will be a sale of farm products which will make the farm program more economical. That might silence people who are blaming the farmers for the mounting costs of foreign aid. Farmers are certainly not responsible for the fact that money received for the sale of farm products is given back to the purchasing country as a form of foreign aid!

C. P. FALLOWS

Butler, Pa.

Bitter pill

- Your article, "Pills, Prices and Politics" [March, 1960], was a good antidote to those poisonous headlines about drug prices. It is reassuring to see how quickly expensive "new" drugs become less costly, even though research expenses must be gigantic. However, your article seemed to be a bit too apologetic on behalf of the drug firms. There is still some doubt in my mind about drug pricing. Why, for example, do some brands of vitamins cost more than others when both manufacturers list identical vitamins and minerals on the label? Surely the Food and Drug inspectors would not let "phony" vitamins appear on the market. What is the answer? Does the additional cost mean that that particular firm is engaged in expensive research on some problem quite apart from vitamins? If so, why should the cost be borne by vitamin users? Quite a few things need clearing up.

L. W. SIMON

Greenwich, Conn.



Challenge Notes

End of the consumer boom; one-way stabilizers; trouble for the ruble bloc

■ THERE IS NO USE denying that the economy's rate of expansion since the steel settlement has, on the whole, been disappointing. Since the stock market is notoriously unreliable as an economic indicator, we need not be too concerned over the fact that this has been one of the worst springs on the New York Stock Exchange in more than a decade.

More serious is the failure of consumer durables sales (especially automobiles) to measure up to expectations. In a period of relatively declining defense expenditures, the consumer's recent caution is cause for concern.

Many economists believe that what we are witnessing is the end of the phenomenal consumer boom of the 1950s. This boom was largely financed by debt expansion.

Between 1952 and 1959, total debt rose by \$272 billion, or approximately 50 per cent, while the gross national product rose by only about 25 per cent. Private debt, on the other hand, increased

at an even greater rate—by 70 per cent. It was the consumer's willingness to go into debt for new autos, freezers and washing machines that helped to sustain many of our key industries during the Fifties.

There are some indications that the next decade will see the consumer exercising much more caution. But even if he does not, his growing debt burden will place increasing restrictions on his *ability* to spend more. In either case, therefore, we cannot rely on debt expansion to sustain a consumer boom during the coming years.

The shift in resource allocation that economists like J. K. Galbraith are preaching about may already be beginning—without government intervention.

One-way stabilizers

One of the factors which, it is generally agreed, distinguishes the economy of 1960 from the economy of 1929 is the existence of "automatic stabilizers" (such

as unemployment insurance, social security, etc.) which "pump" income into circulation no matter how bad business may become.

According to a recent study by Prof. M. O. Clement of Dartmouth College, these stabilizers are largely responsible for the fact that, during the postwar recessions, reductions in disposable personal income were only 49 per cent of reductions in national income. In other words, a decline of \$10 billion in national income would result in a decline of only \$4.9 billion in disposable personal income.

But a stabilizer is supposed to work both ways. If it protects us against recession, it should also protect us against inflation. Dr. Clement's study indicates that our automatic stabilizers are not nearly as automatic in periods of business expansion. Since 1948 expansions in national income have resulted in a 75 per cent increase in disposable personal income.

Clearly, our automatic stabilizers should more properly be called automatic cushions during periods of depression. They do not provide us equal protection against the ravages of inflation.

The East at bay

Recent reports from the Soviet Union seem to indicate that the ruble area is not quite as self-sufficient as many of us tend to

assume. Russia has notified her East European satellites that her heavy commitments at home and in Southeast Asia will force her to cut down on raw materials shipments to them.

Considering that every steel mill constructed in Eastern Europe since the war has, with the exception of Czechoslovakia, been largely built with Soviet iron ore, this will greatly hamper Eastern Europe's economic development. Shipments of other minerals and of grains are also being sharply reduced.

This will put Communist planners in a difficult position. Either they let Eastern European countries shop around in the West, in which case the Soviets risk losing part of their hold over the region, or they can maintain the facade of Communist self-sufficiency at the cost of slowing down Eastern Europe's rate of growth—and the over-all strength of the Communist bloc. A Soviet planner's lot is not a happy one.

Overeager?

Without passing on the merits of the case, we doubt that the Indiana Funeral Directors Association was the appropriate organization to pass a resolution condemning health and surgical care legislation. Funeral directors should not drum up business too obviously.—M.K.

by Frank J. Kottke



*diversification
through*

MergeR

■ RECENTLY the New York financial press has reported some unusual business transactions. A major dairy products company has undertaken the manufacture of ink and varnish. A famous manufacturer of silverware has acquired a firm specializing in electronic navigation instruments. A manufacturer of automobile upholstery and tufted rugs has announced plans to buy a large producer of lingerie fabrics.

As a result of such diversification, many corporate names have had to be amended. For example, American Locomotive Co. now is known as Alco Products, Inc.; Burlington Mills Corporation as Burlington Industries, Inc.; and Electric Boat Co. as General Dynamics Corp.

The broadening of corporation

charters a generation ago has made these diversified enterprises possible. Companies have found that diversification is attractive for the same reason that fire insurance is: it eliminates certain hazards of catastrophic loss.

Every market is subject to perils. Demand may collapse, essential raw materials may suddenly become hard to get, a long strike may halt production, or a competitor may patent a better product or a less costly production technique. By diversifying its activities, a firm avoids the small possibility of a staggering loss by accepting the greater possibility of relatively smaller losses.

But the idea of such an exchange is not an attractive one for the typical businessman who has built up a successful company from the bot-

tom. By nature the successful small businessman is an optimist, and has faith in his ability to anticipate and circumvent the major hazards of his industry. He has no interest in sharing the fortunes of a strange business or parting with full control of his own. Unless his industry falls on hard times, he is unlikely to consider diversification until he approaches retirement. There are exceptions, of course, but, generally, diversification is identified with company managers who own only a small part of their company's common stock.

Defense counterpart

To be sure, a sharp decline in business fortunes can stimulate even relatively small manufacturers to seek new products. A major defense effort does the same thing by closing off materials and imposing price controls on nonessential industries, thus encouraging manufacturers to seek a defense counterpart. However, the great majority of companies appear to seek new products based on technology with which the companies are already familiar.

The railroad equipment builders have been more venturesome. Since 1953 one railway car builder, through a series of acquisitions, has undertaken development of military fire control and missile guidance systems, as well as the manufacture of electronic compo-

nents, airplane equipment, high pressure valves for oil wells and oil refinery equipment. A locomotive manufacturer has added road graders, hydraulic cranes, steel rolling mills and asphalt paving plants. Both the railway car company and the locomotive manufacturer are large firms. Apparently, the larger companies in declining industries go further afield in seeking new product opportunities than do the smaller ones. New product opportunities usually begin as small packages; hence, though one or two suffice to revive the small firm, the big company with falling orders needs six to a dozen.

Avoiding the major perils of doing business is not the only object of diversification. Companies sometimes merge in order to avoid heavy federal income tax liabilities. This is made possible through a clause in the tax law that permits corporations to subtract from the current year's income any losses of the preceding five years not already presented for tax exemption.

Bizarre results

Largely by accident, ways exist by which this right can be made to survive a merger. Consequently, a corporation with large losses can be joined to a profitable corporation in another line of business; the past losses of the former can be used to reduce the future tax liability of the consolidated enter-

prise. A bizarre series of mergers has resulted. A woolen textiles manufacturer expanded into the manufacture of air-borne radio antennae, chain saws, plywood and plastic bags. Perhaps most intriguing has been an anthracite coal producer's entry into the underwear business.

Much more important than the consideration of loss carry-forwards is the growing conviction among business executives that large size in itself confers important advantages on a company. For most companies of any magnitude, diversification is the easiest way to achieve rapid growth.

Favorable terms

In the first place, the big company has sources of capital funds unavailable to the small firm, and it can procure capital on more favorable terms. A small company often must negotiate a five-year bank loan with relatively heavy fixed charges in order to finance a new plant. A large company, on the other hand, could pay for a comparable plant out of a single year's allowances for depreciation on all its assets.

Moreover, in times of unusual stress, a large company is more likely to anticipate future developments. It can protect itself in ways not open to smaller rivals. For example, early in 1951, when a steel shortage threatened, a large auto-

mobile company loaned a steel company \$28 million to build additional facilities, with the understanding that it should have a prior call on the output.

Then, too, a diversified enterprise often profits from "reciprocal deals" because it both buys and sells a long list of materials and supplies; purchases are concentrated on companies which are also its customers. Another advantage is the opportunity to transfer the good will of an established brand to a novel product. ("You can be sure, if it's Westinghouse.") Also, a large diversified company is more attractive to college graduates inasmuch as its future seems more secure. A final consideration is the ability of large companies to pay higher salaries to top management.

Conversant core

The easy way to enter a new field is to acquire an existing firm. Business contacts come ready made, along with a core of an organization which is conversant with the trade and the technology. Consequently, the diversification of large firms comes about more rapidly as more and more successful medium-size firms sell out. There are several reasons why so many smaller firms are for sale. Sometimes retiring heads of a small organization have no leaders coming behind them who could manage the company. The easiest

solution, and sometimes the only one, is to sell the company to another firm.

Additional incentives for selling a successful business are given to retiring company heads through some of the provisions in the capital gains tax and death tax laws. A merger through exchange of corporate stock usually can be arranged so as to avoid an immediate liability for capital gains tax. Death taxes are minimized when the owner of a business gives away his interest piece-by-piece over a span of years. This can be done without jeopardizing competent control when the company first is merged with a larger firm. Moreover, there are obvious advantages for the retiring businessman in merging with a corporation whose securities command a ready market.

Victims of success

Occasionally, small companies are constrained to sell because of a shortage of capital. They commit their liquid funds and borrowing power to a major investment program and discover that a much larger investment is needed than they had foreseen. Thus small companies can be victims of their own success. To build a plant big enough to meet the demand for their products, they may borrow large sums and assume heavy fixed charges. Then something may cut profits—a long strike, improvements

in rival products, a change in the emphasis of military procurement—and the fixed charges consume the firm's liquid assets. The company must then be sold to another which possesses ample capital.

Until a few years ago, businessmen in such straits generally would find a buyer in the same line of business. But with the rehabilitated merger law, large companies hesitate to acquire a competitor. To be sure, the statute is not limited to mergers of business rivals, but applies to any merger likely to lessen competition substantially. But merger with a company that is neither a rival, a customer nor a supplier probably seems the least likely to be challenged.

The circumstances under which a merger of unrelated businesses is unlawful have yet to be established. But some mergers have already been challenged for reasons that would lose little of their force had no buyer and seller relationship existed between the merged companies, or had they not been in the same business although in different sections of the country. Indeed, in numerous industries the presence of large, highly diversified companies appears to be incompatible with effective competition. This is a matter for serious concern, because token rivalry is insufficient to compel unpalatable adjustments to change—changes in technology, consumer needs and

tastes, and in the relative scarcity of materials and human talent. In some countries where competition became too weak to compel such adjustments, the economy has stagnated; in others, the government itself has intervened.

Compensation for risk

One of the requirements for a healthy free enterprise economy is that well-run firms of efficient size in a large majority of the country's industries confidently look forward to covering their full costs of production, including adequate compensation for the risks of ownership. They must feel assured that any competitor that sells below cost, however unintentionally, eventually will be compelled to revise his prices upward or to withdraw from the market.

But the large, highly diversified enterprise is under no such compulsion, as losses in one area of their operation can be made up by gains in another area. Consequently, the entry of such a firm into a market hitherto supplied by nondiversified firms is likely to transform the competitive situation, if it becomes clear that the diversified firm is prepared to sell on terms that cannot be matched by single-line enterprises. Firms of the latter type lose interest in expansion, and restrict their price, service and new product competition to avoid embarrassing the large rival. Serv-

ice concessions are attenuated, and price competition as well. For the large diversified company finds it much easier to attract clientele through reciprocal dealing, advertising, and loans or gifts to customers and suppliers.

The practice of giving loans and gifts to customers and suppliers is particularly worrisome. It makes a company's survival depend on its ability to raise large sums of money to loan to other businesses, a matter which is irrelevant to the firm's efficiency in its own business. Thus, ice cream manufacturers compete as banks, more than as ice cream manufacturers, and the companies that have survived are those best able to do a banking business.

Suppliers and receivers

A second worrisome feature of this aspect of competition is that it makes very difficult entry into areas where more entrants are needed—i.e., industries such as ice cream manufacture, bread-making, petroleum refining, etc., which act as gift and loan *suppliers*. At the same time, it makes entry still easier in areas that already are overcrowded, such as the drug stores, grocery stores and gasoline service stations, which are the *receivers* of gifts and loans from manufacturers.

And, unlike price competition, this type of competition can be concentrated against a single firm if a

diversified enterprise chooses to confine its inducements to this rival firm's customers (or suppliers). Faced with this type of competition, some of the single-line companies withdraw, while others merge with large diversified firms. Those that remain in the market exist on sufferance.

Thus, as large diversified enterprises expand into new industries, they transform markets hitherto satisfactorily competitive into disciplined oligopolies. A close study of "invaded" industries will show that withdrawal of nondiversified firms is far more general than is indicated by trade listings. Ostensibly, most of the small firms may appear to continue "in the same" business, when actually their existence depends on specialities in which their large rival is uninterested.

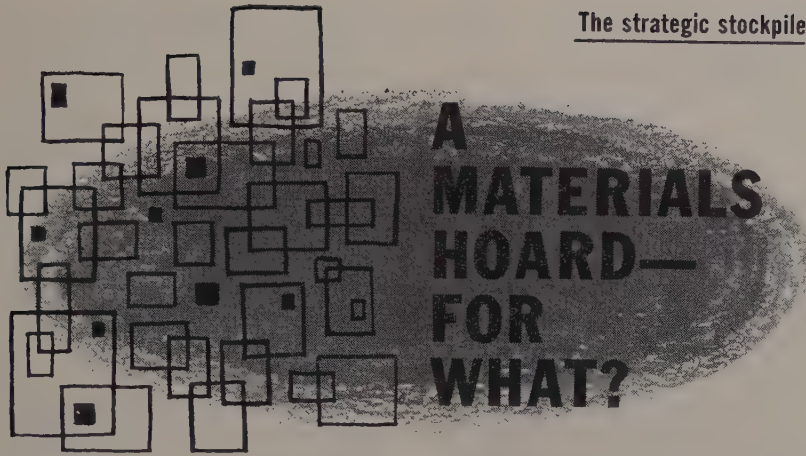
In conclusion, it must be emphasized that this discussion deals only with one type of diversification—namely, the entry of a large diversified company into a market hith-

erto chiefly one of small single-line firms. Where a market already is largely in the hands of large diversified companies, the fact that a newcomer is of the same sort is unlikely in itself to lessen competition substantially. The consolidation of three or four small unrelated business enterprises, each a modest factor in the markets in which it buys and sells, also is unlikely to intimidate their rivals.

Medium-size companies should be free to experiment with longer product lines, and every company, regardless of size, should have the opportunity to use its skills and discoveries for the development of new products. Large diversified firms should be encouraged to treat the new businesses they bring into existence in the same manner they treat their other products, as something fashioned to be sold. Independent, flourishing new businesses are the products which should be the source of greatest pride to established firms. ■

Fashionable Banking

AN OHIO BANK recently offered mink-covered personalized checkbooks "for your lady of distinction." The bank reports that demand was "not overwhelming," which may indicate that most ladies of distinction are reluctant to pull out a mink checkbook while wearing last year's cloth coat.



by Bruce C. Netschert

■ SINCE THE END OF World War II the United States has amassed, as a matter of national policy, the greatest hoard in all history. More than \$6 billion worth of assorted materials has been accumulated at various sites throughout the country to constitute the strategic stockpile. This does not include \$4 billion worth of various other holdings of materials—besides agricultural surpluses—that are outside the strategic stockpile.

The Strategic and Critical Materials Stockpiling Act of 1946 was passed as a result of World War II experience, which demonstrated the strategic vulnerability of this country in the area of raw material supply. It was the purpose of the Act to meet this weakness by

building up, as a reserve for the future, a standing stockpile of whatever was considered vital to a national war effort.

One of the first policy questions to prove troublesome to the stockpilers was how to define the word *materials*. It was recognized that the more advanced the stage of processing or fabrication of a stockpiled material, the more quickly it could appear in end products after the day of mobilization. On the other hand, the nearer to the raw state, the less its utility would be affected by changes in design or technological progress. The stockpile administrators have attempted to strike a judicious balance, so that the list has ranged from finished products like jewel

bearings (for watches and instruments) to metallic ores.

Judgments on this score were from the beginning overridden, however, by a second policy question: How fast should the stockpile be accumulated? From the military viewpoint, obviously, the faster the better. Congress, more economy-minded, thought otherwise, and stockpiling proceeded slowly.

Welter of issues

Thus, with limited funds, the stockpilers were forced to acquire their materials at the earliest stage of processing, wherever they had a choice, in order to get the most for their money. One million dollars buys considerably more lead in the form of ore than as pig lead.

A third policy question—where the materials should be acquired—became involved in a welter of issues. Simple logic said that since the stockpile was meant to make up for domestic deficiencies, it would have to be built up mainly through foreign purchases. Yet, given enough time, domestic sources could supply many materials, but at a higher price than prevailed abroad.

Under pressure from domestic interests, Congress made stockpile purchasing subject to the provisions of the Buy American Act. But this restriction was partially offset by the adoption of a working rule to allow foreign purchases

where the price differential between domestic and foreign sources was greater than 25 per cent. Thus, when the Korean war began in 1950, the stockpiling program was proceeding slowly, hampered by small appropriations and the need to achieve some sort of adjustment between domestic and foreign purchases. Inventories on hand amounted to 38 per cent of the total stockpile goal as then established and at current prices.

The story of the strain placed on U.S. planning by the anomalies and unforeseen problems of the Korean conflict is a familiar one. It is probably an exaggeration to say that nowhere were they greater than in the stockpile program, but the dilemma posed by the new situation was certainly acute. The stockpile had been conceived to function under condition of all-out global war, with the assumption that it would be full when war broke out. Existing circumstances had been wholly unforeseen. With the stockpile unfilled, and with the war limited but carrying the danger of erupting to a global scale, how should the stockpile be managed?

The dilemma was met by the decision, on the one hand, to reserve it for use in possible all-out global war (allowing withdrawals for the Korean effort only in cases of gravest need); and, on the other hand, to accelerate the purchase program now that it had support from an

eager and cooperative Congress.

By and large, these decisions served their purpose. Limited use was made of inventories at hand by the release of materials only when the rigorous criteria for such release were met. A program of production stimulation both at home and abroad quickly began to bear fruit. By the end of the war goals were well toward completion and inventories were growing rapidly; yet there had been no serious interference with current supply.

Unfortunately, the very success of the wartime measures now created a new set of postwar problems no less vexing and, in addition, politically embarrassing. The stockpilers found themselves saddled with expensive contracts, many of them with overseas suppliers. In addition, the government was obligated to take enormous tonnages of domestic minerals, also at high prices, under a large-scale program to stimulate minerals production in general, authorized and carried out under the Defense Production Act.

Constant threat

Matters were not helped by the accumulation in government hands of minerals delivered under DPA contracts but no longer needed. These large government holdings, outside the strategic stockpile and disposable at administrative discretion, constituted a constant

threat to already depressed markets. It was, therefore, inevitable that Congress would provide for the transfer to the strategic stockpile of DPA materials on the stockpile list.

But this only created new problems for the harried stockpilers. In many instances, the new additions to inventories—plus material on order through long-term contracts—far exceeded the goals; in others, the acquisition of DPA materials alone immediately carried the inventory beyond the goal.

This problem of surplus stocks and overcapacity was met by the abandonment, for the first time, of purely military and strategic considerations in the establishment of stockpile goals. A Cabinet Minerals Policy Committee, appointed to look into the general problems of the depressed mineral industries, recommended in early 1954 that the established stockpile goals be supplemented by a new set of “long-term” or “maximum” criteria. The addition of these so-called maximum goals opened up additional procurement possibilities, in some instances very large, for most stockpile items.

To be sure, the procedure for determining the new goals did maintain the military-strategic facade, but the circumstances surrounding its adoption belie this motive. Of all the domestic mineral producers caught in the post-Korean market

collapse, the plight of the lead-zinc mining industry was perhaps the most severe. To the members of the industry the cause of their troubles was clear: they had been led into the wilderness by the government and then abandoned. They had expanded capacity under the government's urging and now had no market; worse, they faced the new competition of foreign producers brought into being by the action of that same government. The remedy as they saw it was stiff quota or tariff protection.

But this was, of course, contrary to national trade policy. The stockpile was a convenient out, and with the establishment of maximum goals for lead and zinc the government inaugurated a monthly purchase program that effectively sustained the domestic price for several years above what it would otherwise have been.

The maximum goal also came in handy for a second time as a partial solution to the management of the enormous stocks of surplus farm commodities. With the enlargement of stockpile goals, the way was open to engage in an active barter program of U.S. farm products for foreign mineral products. The limited success of this program is attributable to the domestic minerals producers, who were opposed to seeing the maximum goals filled in this manner.

A final item in the history of the

stockpile was the adoption in 1957 of a new base for calculating deficits and goals. The revised stockpile was to hold a quantity needed to meet the deficit for a three-year, rather than five-year "period of emergency." The maximum goals, however, could not be less than six months consumption by the U.S. "in periods of active demand."

Political realities

From this brief history of the stockpile as it now stands, it is clear that a wholly rational, dispassionate stockpile program is too much to expect in the face of political realities. Ideally, the stockpile should have been complete by the time of Korea, with acquisition at relatively low prices. But this was impossible in the face of an uncooperative Congress and probably could not have been done without unduly disturbing world markets.

The stockpile fulfilled its function, by and large, during the Korean period. The decisions on the acquisition side during those years, although wrong in hindsight, were the only ones that could have been taken under prevailing conditions.

The single glaring mistake in stockpile management occurred with its use as a price-support device. Having once been used as an instrument of economic policy, the strategic stockpile remains such an instrument, and any action taken with respect to it will be injected

into economic policy issues whether justified or not. This is doubly unfortunate in the light of current and future stockpile management problems.

What, for example, is the place of the stockpile in a nuclear war? If there is agreement on one thing, it is that a nuclear war is not likely to be long. Yet the stockpile was established with the experience of two world wars in mind, as the five-year "emergency" criterion attests. The whole question of nuclear warfare was assiduously avoided in stockpile policy until 1957, at which time the realities of the new age were feebly acknowledged with a three-year "emergency" criterion.

Threat of nuclear war?

It is difficult to avoid the conclusion that the stockpile as now constituted is simply unnecessary in a nuclear war. If anything is to be stockpiled, it should be finished products that would be so desperately needed for rehabilitation and reconstruction. What can be more irrational, for example, than hoarding billions of dollars of materials in the strategic stockpile and only \$200 million worth of medical and other disaster supplies in the Civil Defense stockpile in the face of the continuing threat of nuclear war? Another nonnuclear war can be ruled out as highly improbable and so dismissed in strategic planning.

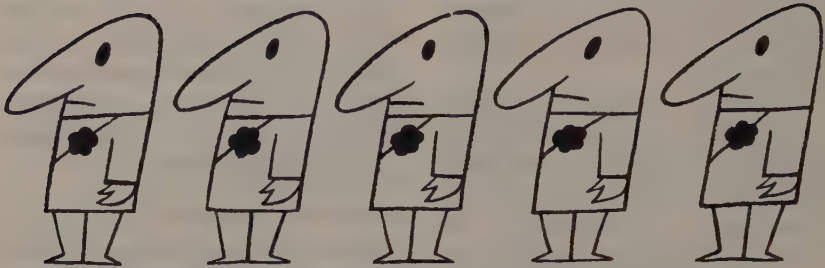
Even the allowance for a limited, Korea-type war does not justify the present stockpile. Its use in the Korean experience proved that a fairly small inventory would be adequate in most instances, totaling perhaps as little as 10 per cent of the present inventory.

Staggering problem

If the stockpile is, then, mostly surplus, what should be done with it? Its sheer size makes any large-scale disposal a staggering problem; even a mere mention of the possibility sends shivers through the markets. The near impossibility of disposal from the political viewpoint argues strongly for doing nothing. Inaction is unquestionably attractive, even though the annual maintenance and administrative costs are some \$19 million. But the fact remains that the United States finds itself, partly through past mistakes, but mostly because of changing circumstances, with a strategic stockpile that is largely excess and the bulk of which was acquired when it was no longer really useful.

It is probably too much to expect that anything will be done until the realities of the nuclear age are recognized without equivocation in our strategic and political thinking. In the meantime, the strategic stockpile remains a costly anachronism and a potentially dangerous investment of economic policy. ■

The problem of an organized society



MANAGING THE MANAGERS

by James Burnham

■ IN ALL SOCIETIES of any size and complexity, there must be persons who perform the managerial function. In earlier eras, this function was performed by those who by virtue of heredity, property rights, military prowess or priestly skill held positions of power. In contemporary times the development of managerial groups has gone beyond anything achieved by previous societies in relative numbers, power and privilege, and the degree of autonomy with respect to other social groups and classes.

A more important development is a shift in the *basis* of managerial power. The divorce of control, or power, from ownership has been due in large part to the growth of public corporations. So long as a single person, family or comparatively small group held a substantial portion of the common shares

of a corporation, the legal "owners" could control its affairs. Even if they no longer actually conducted the business, the operating managers were functioning as their accountable agents. But when the enterprise became more vast in scope and, at the same time, the stock certificates became spread in small bundles among thousands of persons, the managers were gradually released from subordination to the nominal owners. *De facto* control passed, for the most part, to nonowning management.

This structural shift was not limited to large-scale corporate business enterprise. A parallel shift took place within the other great institutions of the advanced nations. Within the governments, the power of the elective parliaments began to leak to the bureaus, executive agencies, commissions and

commissariats. As I wrote in *The Managerial Revolution*, "In the new form of society, sovereignty is localized in administrative bureaus. They proclaim the rules, make the laws, issue the decrees. The shift from parliament to the bureaus occurs on a world scale. . . . The actual directing and administrative work of the bureaus is carried on by new men, a new type of men. It is, specifically, the *managerial* type The active heads of the bureaus are the managers-in-government, the same, or nearly the same, in training, functions, skills, habits of thought as the managers-in-industry."

Within the huge trade unions, a similar managerial officialdom, the "labor bureaucracy," consolidates its position as an elite. This elite is sharply distinguished in training, income, habits and outlook from the ordinary union member.

The trend extends to the military world, the academic world, the non-profit foundations and even auxiliary organizations of the U.N. Armies are no longer run by "fighting captains," but by a Pentagon-style managerial bureaucracy. Within the universities, proliferating administrators have risen above students, teaching faculty, alumni and parents, their power position expressed in the symbols of higher salaries and special privileges. The great "nonprofit foundations" have been transformed from expressions

of individual benevolence into strategic bases of managerial-administrative power. The United Nations has an international echelon of managers entrenched in the Secretariat.

There are fairly obvious parallels in the managerial structures of the diverse institutional fields. For example, managers in business are to stockholders as labor managers are to union members; as government managers are to voters; as public school administrators are to taxpayers; as university and private school administrators are to tuition payers and fund contributors.

As their *de facto* control spreads, the managers begin to coalesce as a potential class, and take on distinctive psychological and cultural as well as economic and political traits. These become the natural object for comment in books, such as William H. Whyte's *The Organization Man*, C. Wright Mills' *The Power Elite*, Milovan Djilas' *The New Class*, David Granick's newly published *The Red Executive* and the business novels of Cameron Hawley. The traits are remarkably uniform in all advanced nations, whatever the official form of the regime—communist, socialist, fascist or capitalist.

The managers, like all other social groups that move up in the world, find that an increase in power makes both possible and seemly an increase in privilege. There are

typical managerial methods of appropriating the privilege. In business, there is the delicate manipulation of bonuses, stock options and rights, delayed compensation, merger windfalls and the like. In every institutional field, alert managers explore the potential of annuities, pensions, holidays, fringe benefits and, above all, the expense account. First-class accommodations in aircraft, ships, luxury hotels, clubs and restaurants, as well as large, black chauffeur-driven limousines, are some of the privileges enjoyed by managers who need not pay for their use.

Luxurious necessities

These perquisites are necessary in order to fulfill the job of managing in our society. They are just as necessary to a government bureau chief or trade union official as to a corporation or university president. As a matter of fact, they are so necessary that the corporation or bureau or trade union often owns and operates the aircraft, resorts, restaurants and big black cars.

True enough, the modern managerial caste is not yet as fully solidified in its power and privilege as some land-owning, patrician and priestly classes have formerly been over periods of centuries. The managerial group is more open and fluid than these, at least with respect to individual members. But it

is young yet. Even today, though individual managers in business can lose their jobs, a Napoleonic campaign is needed to get rid of a corporate management group. As for government or educational administrators and trade union officials, a nuclear explosion would hardly be enough to dislodge them.

If we are willing to believe the ideological apologists of the managers, there is nothing wrong with this situation, and we should rejoice at having entered a rationally administered age of peace and enlightenment. Still, some analysts think they see a few flies in the ointment:

- Once the managers consolidate their position within an institution, their objective interests no longer fully correspond to the interests of the other groups involved—voters, owners, members, teachers, students or consumers. A decision on dividends, mergers, labor contracts, prices, curriculum, class size, scope of government operations, armament, strikes, etc., may serve the best interests of the managers without necessarily contributing to the well-being of the other groups.

- Unrestricted managerial predominance tends to be socially wasteful and thus inflationary. This tendency has been formulated by Prof. C. Northcote Parkinson into a series of "laws" which emphasize the well-known "empire-building" trait of managers—their

tendency to expand work to fill available time, and to expand expenditures to use all available and borrowable funds.

- Managerial activity tends to become inbred and self-justifying. The enterprise comes to be thought of as existing for the sake of its managers—not the managers for the enterprise. A high percentage of the time of the managers and their staff is spent on “housekeeping” and other internal problems.

- Self-justifying managerial control tends to keep alive operations which have little social purpose other than to nourish an enclave of managers. This is conspicuously true of governments. Many acute, expensive problems which our society faces—for example, in agriculture, radio-TV, railroads, finance, etc.—are largely manufactured by the managerial agencies founded to solve them.

- Managerial predominance tends toward regimentation and the suppression of active democracy. The rising power of a managerial group in a given institution is, in fact, usually equivalent to a lessening in whatever form of democracy is relevant. In other words, the power of the stockholder, voter, member, consumer, faculty, taxpayer, etc., decreases as the power of the manager increases. The combination of managerial groups—as when there is collusion between labor and business management—means the de-

cline of democracy in the conjoined fields. In this connection, we must remember that totalitarianism is nothing more than an integrated front of managerial groups achieved either by mutual agreement or unilateral coercion.

- Managers are not, in short, “accountable.” This question has, in the last year or so, begun to preoccupy many analysts in Europe, especially in Britain and West Germany. Granted the best will in the world on the managers’ part, what objective factor can direct their performance toward the public interest? Who can manage the managers, and how?

Discipline of the market

If we don’t like the way the managers manage, we are told, we need only exercise our “democratic rights” as stockholders, voters and union members. The advice has some merit, no doubt, but the managers have a big head start in any contest with the unorganized, formless mass of their constituencies. The managers have learned techniques for manipulating their constituents to their own purposes and even for getting their constituents to imagine they like being manipulated. The 95 per cent vote by which stockholders approve an outrageous stock-operation grab by “their” management, or the vote by which union members rename a treasury-draining thug as “their”

president, or the "people's vote" in a nominating convention or plebiscitary election—none of these can be said to represent a real choice made by the people.

It is argued that in a business enterprise the managers are subject to "the discipline of the market." If they run the enterprise too badly, it will go bankrupt, and the managers will sink with their foundering ship. There is in truth a discipline of the market, and this is why business despots are less noxious than government despots. But the market can discipline only when it is free. Invasion of the market's freedom—whether from tariffs, quotas and subsidies, government commissions, management-union collusion, cartel and trust arrangements or managerially administered prices—inevitably lowers its disciplinary power. This is just the reason, incidentally, why the managerial revolution has everywhere been correlated with a decreasing freedom in the market.

Power vs. power

In the political realm, discipline must also involve a possible loss of job and privilege. This means a kind of political free market, with a vigorous opposition plus a revival, particularly for the upper echelons, of the spoils system—at least insofar as it means rewards for good service. This is the reason why the progressing managerial revolution

tends to eliminate the spoils system and to sterilize or altogether get rid of the political opposition. In this way the managerial positions are safe from being challenged from within the organization as well as from without.

In the trade unions, law and custom have done away with all analogues of market freedom. The managers are, in reality, no longer accountable to anyone in their own field. Effective pressures can be brought against labor managers only by *other* managers—of business, government or perhaps other sectors of the labor movement.

This last observation applies more generally. In all fields, the managers are gaining predominant power, and it is utopian to suppose that we can do very much to restore effective control directly to the constituents (stockholders, voters, members). Only power can check power. Managerial despotism, with its totalitarian potential, can only be combated if the interests of the managers in one field are sufficiently different from the interests of managers in other fields. We will, that is to say, bring to bear within the new context of managerial society our traditional doctrine of checks and balances, separation of powers and diffusion of sovereignty.

Within each major field—business, labor, education, government—we must try to keep vigorously

alive an antimonopoly principle, suitably adjusted to our social structure. We do not want the sameness of one rigid, organizational structure to control business, labor, education and government. We need, instead, the living variety of organic nature in the make-up of these institutions.

This concept must extend to relationships *among* the various fields. The managers of business *need not* concern themselves about whether their type of management corresponds to the interests of managers in government or labor. The trade union managers must make their bid *in their own way* for workers' allegiance and public support. The managers in govern-

ments should recognize that the educational, business and social interests of the citizens can get along without governmental advice every step of the way.

Finally, the directing managers of each nation should preserve a healthy remnant of national individuality from becoming dissolved into the global managerial state that looms, under a variety of labels, as the ideal goal of a total managerial society.

The only way to manage the managers, in short, is to keep them busy enough managing or countervailing each other to guarantee that they won't unite and spend all their time managing the rest of us. ■

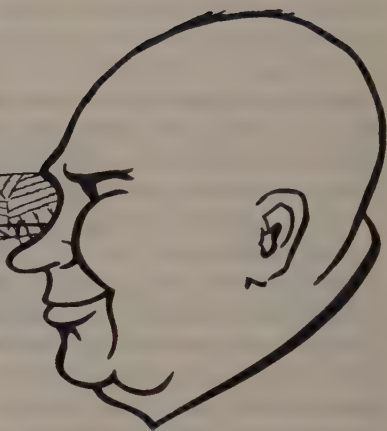
Mechanized Mail

THIS YEAR, every American will receive 370 pieces of mail, on the average, to make a national total of some 66 billion pieces. Within the next 25 years that total will be doubled, the U.S. Post Office Department predicts. In order to cope with such volume, the Department hopes to completely mechanize the mail sorting system. Although letters may one day be speeded across the country by facsimile transmission, other new methods will probably be introduced to the public in the next few years:

- A machine that will read printed or typed addresses has already been developed. Future models capable of reading handwriting will send instructions directly to sorting machines.
- A gray band on which tiny magnetic filings are arranged to duplicate the letter's address will be affixed to letters so that magnetic impulses will give instructions directly to the sorting machines.
- Traditional addresses may give way to coded ones, patterned in the fashion of long-distance telephone communication codes.



HOW TO GET MORE WITH LESS



by D. Gale Johnson

■ IT MAY BE some comfort for Secretary of Agriculture Ezra Taft Benson to know that Russia has a farm problem, too. He may find still more comfort in knowing that he would hardly want to trade places with Premier Khrushchev. Benson has enough difficulty trying to figure out what to do with the produce of only five million farmers. It is doubtful that he would care to direct the operations of some 30 million agricultural workers as Khrushchev must do.

Actually, the problems cannot be compared by counting the number of agricultural workers in each country. Though Russia has at least five times as many farm workers as there are in the United States, Soviet agricultural output

is only 80 per cent of the U.S. output. This means that the total output per worker in the United States is about six times greater than in the Soviet Union. Thus, although we have comparatively few farmers, we have a problem of overproduction. The Soviet Union, on the other hand, with large numbers of farm workers, has a problem of underproduction. How to increase the efficiency of their agricultural system—how to produce more with fewer workers—is the primary problem of Soviet farm policy.

It is undoubtedly a matter of concern for Khrushchev and his associates that the gap between output per farm worker in the two countries has widened since the late 1920s. In the Soviet Union,

output per worker increased 100 per cent between 1928 and 1957. But during the same period in the United States, output per worker increased 149 per cent. The Russian peasant farm of the late 1920s kept up with its American counterpart better than the giant collective of today is doing.

The figures are even more significant when one takes into account the fact that much of the increase in the Russian worker's output was not achieved through increased efficiency, but by increasing the number of days worked per year. In the United States, however, the number of hours worked per year by farm workers *declined* substantially. Thus, the increase in output *per unit of time* was about 40 per cent in the Soviet Union between 1928 and 1957, and 192 per cent in the United States.

These figures do not say much for the performance of Soviet agriculture. But too much significance should not be attached to them. In the first place, perhaps 55 to 60 per cent of the Soviet farm labor force consists of women. Second, the number of people engaged in agriculture has *declined* by perhaps 13 million since 1928. This number represents almost half of the total number of workers engaged in three major branches of the Soviet economy in 1957—industry, construction and transportation. Since 1953, however, there has probably

been an increase in total farm employment as a result of the various measures that have been taken to increase farm production.

It is quite apparent that the efforts made since 1953 to increase agricultural output have had positive results. Khrushchev has been willing to experiment and to accept important risks in order to increase farm production. He made large investments in farm machinery, transportation, housing and storage in order to plow 90 million acres of virgin and idle land. He poured vast quantities of labor into the effort to expand corn acreage. In addition to these spectacular endeavors, the Soviet Union, since 1955, has made a serious effort to learn from the agricultural technology of the capitalist countries. There is plenty of evidence to indicate that the exchange of agricultural delegations has resulted in many improvements in the production of crops and livestock.

Probably the biggest political gamble taken by Khrushchev was his decision to abandon the machine tractor stations in 1958. These stations had been considered one of the major political and economic innovations of Communist agricultural policy. They owned most of the farm machinery and supplied the workers who operated the machines. This meant that the collective farms had little control

over a large part of their operations. Moreover, the criteria for judging the performance of the stations did not necessarily make for the achievement of maximum farm output. It soon became clear to most Western observers that the stations represented an important source of inefficiency in the agricultural program.

Positive effect

Now that these machine tractor stations have been abolished and the machinery sold to the collective farms, it is reasonable to assume that the utilization of labor and machinery will be more efficient. This, in turn, should have a positive effect on farm output.

Another important change in agricultural policy is the increase in the state procurement prices paid to the farmers for their produce. At the time of Stalin's death, procurement prices were so low that they provided little incentive for the members of collective farms to participate in collective farm production. Moreover, the farms were forced to deliver a significant fraction of their produce to the state as payment for the services of the machine tractor station. Another significant portion of their produce had to be sold as an obligation to the state at a price even lower than the procurement price.

But, according to estimates made by Nancy Nimitz of the RAND

Corporation, Soviet procurement prices for all agricultural products increased by 216 per cent between 1950 and 1956. The prices for food products went up 385 per cent. However, the increase in the real income of the Russian peasant, while substantial, has been much smaller than that implied by the increase in prices. The real income of the farm worker may have increased about 45 per cent between 1950 and 1958. (It must be remembered that the real income of the worker in the collective in 1950 was below that of the peasant farmer of the late 1920s.) At any rate, there is no doubt that the recent increases in agricultural output have been due, in large part, to the greater incentives provided by the higher prices paid for farm produce.

Of the specific programs referred to earlier—the new lands program, the corn program and the adoption of Western methods of production—the new lands program has undoubtedly been the most important factor in the 50 per cent increase in agricultural output between 1953 and 1958. The average yield in the new lands area for 1956, 1957 and 1958, including two years of good weather and one bad year, has been about 12 bushels per acre. In 1955, a year of dry weather, the average yield was about five bushels. This has been considered a very satisfactory output in view of

the previous condition of the land.

In general, Khrushchev's efforts to reclaim farm lands have been greatly enhanced by favorable weather conditions. As a result, his gamble has already paid off. In the short time since the land was reclaimed, the millions of tons of grain harvested from the area have almost repaid the original investment, plus current operating costs. If rational rotation practices are followed, it is likely that a large portion of the new lands will be cultivated for many years to come. Even if the weather should diminish the yields in the years ahead, however, and even if some of the lands should have to be abandoned, the project must still be considered an unqualified success.

Acreage goal

The same can hardly be said for the corn program. Still, if the corn program has not been a rousing success, neither has it been a total failure. Certainly, the results have not come up to Khrushchev's announced expectations. But none of the measures undertaken since 1953 have come up to announced expectations, including the new lands program. The original goal of the corn program was to increase the area under corn from 10 million to 70 million acres. The acreage goal has not yet been reached. Although in 1956, the second year of the program, almost 60 million acres of

corn were planted, the climate of much of the acreage was entirely unsuited for corn. Consequently, in both 1957 and 1958, the corn area was reduced to less than 50 million acres.

The corn program was undertaken in the first place because of an inadequate supply of feed for cows. Most of the grain produced during the first half of the 1950s was required for human consumption, seed and industrial use. What little grain was available for feed usually was of poor quality and was not available throughout the year. Thus, the level of milk production was very low.

While the contribution of the corn program has not been large in terms of total grain production, its relative contribution to the feed grain supply has been very substantial. It has been especially important in providing green feed during the summer months when pastures dry up. Also, corn silage has been of great benefit in supplementing the poor quality of other available feeds. In the past five years the average milk output per cow has increased by about one-third. In the same period the livestock production has gone up 40 per cent. Of course, the new land program and higher yields in the traditional grain growing area have also contributed to these increases.

It is still too early to attempt to measure the effects of the adoption

of Western farm technology. The important innovations have occurred in the areas of farm tractor design, labor-saving techniques in livestock care, and new methods in the production and marketing of cotton. On the whole, the greatest impact of Western farm technology will probably be in reducing labor requirements and increasing the effectiveness of investment, rather than in increasing output.

Our technology will probably not have much effect on acreage yields in the Soviet Union, where climatic conditions constitute a major barrier to high yields. We have been most successful in increasing agricultural output in comparatively humid regions such as the corn belt. In dryer areas we have been

less successful. Since most of the Soviet agricultural area is located in a dry climate, our experience in the corn belt will be of little use to them.

While Soviet agriculture is still very backward by Western standards, the present level of farm output provides an adequate diet for a healthy and vigorous population. That diet is high in starch and low in animal protein, but there is no evidence that the Soviet population is suffering from major dietary deficiencies.

At this point it is difficult to say what the final effect of Khrushchev's farm program will be. But it seems safe to say that, as a result of these new policies, Soviet agriculture has already become more efficient. ■

Legal Tender

PRIOR TO THE REVOLUTION, most American colonists used the barter system in ordinary business transactions because of a scarcity of currency. England forbade the minting of coins in her colonies but at the same time had placed a ban on the exportation of English coins. The only local currency was Indian wampum, declared legal tender by the Commonwealth of Massachusetts in 1643. Colonists on Long Island found that better tools enabled them to manufacture wampum more rapidly than the Indians; wampum remained legal tender in the State of New York until 1701. Because of the shortage of English currency, Spanish coins came to be the chief currency in circulation in the American colonies. Spanish coins were called *Spanish dollars* by English coin merchants, and the term passed into the American vocabulary. The word *dollar* is an Anglicization of the German *Thaler*, which is an abbreviation of *Joachimsthaler*, a popular coin of the 16th century. At the outbreak of the Revolutionary War, Congress issued *Continental*s entitling the bearer to receive Spanish dollars. In 1785 Congress passed a resolution that the monetary unit of the United States be the dollar. The next year the terms *cent* and *dime* were approved by Congress.

'TAKE-OFF' INTO ECONOMIC GROWTH



W.W. ROSTOW

Professor of Economic History,
Massachusetts Institute of Technology

Getting off the launching pad

What is government's role?

What happens after "take-off"?

How do we allocate resources?

Will Russia follow our lead?

TURN PAGE →

'Take-off' into Economic Growth

Q *Prof. Rostow, what distinguishes a growing society from a non-growing one?*

A What essentially distinguishes a growing society from a nongrowing one is its ability to produce and apply a regular flow of modern technology. Before this can happen, a great many prior changes must occur. There must be a prior revolution in agricultural productivity in order to supply food to the growing cities. There must be a big build-up of social overhead capital—schools, roads, health facilities, etc. And, usually, there must be some changes in production which will bring in more foreign exchange.

Q *In your recent book, "Stages of Economic Growth," you have described certain societies, where no sustained growth takes place, as "traditional" societies. What do such traditional societies have in common?*

A Traditional societies vary greatly from African tribes to the grand ebb and flow of the dynasties of China or the Roman Empire. These societies have not usually been static. Often they developed all the preconditions for growth "take-off"—except one. They improved their agriculture with irrigation. They built roads and other forms of social overhead capital. They engaged in trade and even did a certain amount of manufacturing. But what ultimately triggered their decline was the invariable absence of a scientific attitude toward the physical world, and a social and technical inability to *regularly* allocate first-rate talent to breaking the bottlenecks. In other words, they did not have a *flow* of modern technology.

Q *And this was the fatal flaw?*

A The fatal flaw, yes. Of course, many patterns have marked the crises of these traditional societies, but behind them lay the fact that they

could not break through into a stage of economic development where technology could substitute for adequate supplies of land and meet the requirements of a growing population.

Q *Does this mean that there was no possibility of a take-off before you had industrial technology?*

A That is right. While growth is not a function of modern technology, *sustained* growth is.

Q *What changes have to take place before a traditional society is ready for the take-off?*

A From the time that a traditional society is intruded upon from the outside and the time it is ready for its take-off, enormously complex and revolutionary changes—social, political, economic and psychological—have to take place. While there are certain uniformities in the problems—technical, social and psychological—that have to be faced, the lesson of history is that every case is unique. Some societies, such as Japan, have found it possible, for largely accidental reasons of social structure and culture, to make the changes necessary for take-off rather quickly. Others had to go through a most terrible torment, like China from the time of the Opium Wars down to 1949.

Powerful spreading effects of the new technology

Q *Let us assume that a society has reached a stage where it is ready for the take-off. What is involved in getting it off the launching pad, as it were?*

A What is required is not only that modern technology be applied to some leading set of economic factors but, even more important, that the society react positively to the powerful spreading effects of this new technology. Let me give you an example. The take-offs of the United States, France and Germany during the mid-19th century, and those of Canada and Russia shortly before World War I, all stemmed from railroads. Now, the railway potentially leads to growth take-off because it has a number of very important “spread” effects. Railways set up a demand for coal, iron and heavy engineering industries. Railways spread

W. W. ROSTOW

out into the countryside and, if the countryside responds, they can accelerate agricultural specialization.

Q *But railways have not always resulted in an economic take-off?*

A No, they have not. In China, India and Argentina, the development of railways did not lead to a take-off. If the society, in the widest sense, does not actively respond, the building of railways will not have these self-generating effects. Society must be equipped with a set of institutions and values capable of responding to modern technology.

Q *What does this involve?*

A It involves several things. First, there must be a group of private or public entrepreneurs able and willing to exploit the new possibilities of productive activity or profit set in motion by the new technology. There must also be an adequate core of trained people who can perform the technical jobs necessary to exploit these opportunities. Finally, there must be a government which, either actively (as is true in most cases) or passively (as was the case in Britain in the late 18th-century cotton textile take-off), will do all that is necessary to encourage the technological breakthrough.

Q *If all this is done, the chances are that such technological developments will spread into other sectors of the economy.*

A Correct. Modern techniques can spread backward—that is, they can stimulate old industries in the way that the railways encouraged the coal and iron industries. They can spread laterally—by setting up requirements for new cities and new social overhead capital. But most important, they can spread forward by creating new industries. In this way, the steel industry came into its own as a result of the need for steel rails when it was discovered that iron rails wore out too fast. Now, the leading sector in the take-off has varied widely—from textiles in England to railroads in the United States and Germany, to timber in Sweden, to import substitution industries in Argentina and India. Each society will have its own set of leading sectors depending on its resources and on the stage in technological history when it comes into the game.

Q *Most of the take-offs we have discussed so far took place in the 19th century. But the technology required for a similar take-off in mid-20th-century Southeast Asia may be quite different. If the leading sectors are no longer, say, railroads, but mass irrigation and power projects, does this call for a larger government initiative during the take-off period?*

A Let us get one thing clear. No country—not even Britain during the 18th century—has ever been able to get itself ready for take-off without the government playing a very large role. That role has varied, of course. In the case of the U.S., government played an extremely important role. Prior to the Civil War, most of the social overhead capital was built by the state and local governments rather than by the federal government. While we had less of an agricultural problem than most countries, since we had ample supplies of good land, we did devise a public land policy especially to exploit this resource. Moreover, our land-grant colleges were a conscious act of federal policy designed to improve our agricultural technology. And, of course, we had a deliberate foreign exchange policy in the form of protective tariffs. Similarly, government played an extremely important role in the preconditioning of 19th-century Canada, Czarist Russia and Meiji Japan.

Q *So the underdeveloped countries today follow this same process?*

A Yes, but in a more extended form. Only very unhistorical economists can argue that government played no role in Western take-offs, or that what we are now witnessing in underdeveloped countries is something new and ideologically peculiar.

The responsibility of industrialization

Q *Well, what other factors may determine the extent of government intervention during the take-off period?*

A A lot depends on whether you have a solid commercial middle class ready to move in and assume the responsibility of industrialization. Where such a middle class did not exist, as in Japan, Turkey and Czarist Russia, governments often initially took a direct hand in stimulating industry. But, contrary to the expectations of ideologists, it is not true

(outside of Communist countries) that governments never relinquish their hold on a particular industry. Governments which are not compulsively committed to economic control for power reasons often find that the public interest does not require them to maintain total ownership and operational control of the private fabricating sector. In fact, what we are rediscovering is that the public interest can be safeguarded by means other than having the government run industry, which, as many underdeveloped countries are beginning to find out, can be a great headache.

Q Then the necessary degree of government intervention will vary with each society?

A Of course. If, as was true with the Japanese and British, there is no very severe problem with social overhead transport capital because these islands have coastal shipping, the government's role in this area will be light. In countries like Russia and Canada, on the other hand, you had a very great transportation problem, and the government had to play a preponderant role. And the same variations exist in the fields of agriculture and foreign exchange. The extent of technically appropriate state intervention will vary with each situation.

Q But, in the context of competitive coexistence, the growth rates themselves have become an important ideological issue. Will this not mean that even in societies where there is no ideological compulsion for state intervention, such as India, the initial performance of totalitarian societies may seem so impressive that the temptation to emulate totalitarian institutions may prove irresistible?

A This is possible, but not very probable. I do not believe that people are quite as silly as professors sometimes are. What will matter in the competition between India and China, for example, is not whether the Indian growth rate matches the Chinese. If India, in the next decade, can move into a genuine take-off sufficient to give its people a real sense of improvement, if it can begin to make a dent on the unemployment problem, if it can improve agricultural productivity and provide her urban masses with a more stable food supply, I don't think Indians will care if they read in the newspapers that the Chinese GNP is increasing

faster than theirs. A great deal—including, in my opinion, the fate of Communist China—hinges upon the Indian government's ability to give her people concrete evidence of material improvement.

Self-sustained growth is not a smooth process

Q *Let us assume that a country has successfully accomplished an economic take-off. Does this success assure it of permanent growth?*

A The answer to that is both yes and no. Certainly, no country that has once achieved a successful take-off has ever relapsed into stagnation or decline for more than a limited period. On the other hand, self-sustained growth is not a smooth process. Growth consists of a constant repetition of the take-off in the sense that leading economic sectors are constantly decelerating. Only by creatively introducing *new* leading sectors into the economy can we sustain over-all economic growth.

Q *Is the transition from one leading sector to another always smooth?*

A History is full of cases where certain leading sectors declined *before* a new set of leading sectors took hold. There was such a gap during the 1880s, for example, when railways could no longer lead growth in many countries. There was another such gap, at least in Western European history, during the interwar years when the potentialities for growth from the prevailing leading sectors—steel, steel ships, coal, iron and heavy chemicals—could no longer carry growth forward. At the same time, Western Europe was not quite able to adapt itself to the age of high mass consumption—that is, the age of automobiles, ball bearings, electricity, strip steel and gadgets. In fact, it was not until the 1950s that Europe finally moved into the same stage that we had already been in since the 1920s.

Q *But you believe that once a take-off has been achieved, new leading sectors will always emerge?*

A Well, that seems thus far to be the lesson of history.

Q *In your book you describe the U.S. as having reached the most highly developed stage of economic growth—the stage of high mass con-*

sumption. Can we expect other societies, like the Soviet Union, for example, to enter this stage irrespective of what their leaderships may desire?

A In theory, I can see no reason why all cultures should choose to make the same use of a mature industrial machine and of modern technology that we do in the U.S. In the U.S., we have been able to see what happens in a society where 80 per cent of the people have cars and 70 per cent have their own houses. In the U.S., at least, people have opted for larger families and, perhaps, for a certain "retreat into leisure"—do-it-yourself projects, trips to national parks, long-playing records, and the like. But, there is nothing about the American choices which has been decreed by nature.

Symbols of privacy and mobility

Q Still, wouldn't you say that increasing awareness that such a style of living is possible must have a political effect on the middle classes of more advanced Communist countries?

A Well, my hunch is this. Once people enjoy a certain level of food, shelter and clothing, and have some measure of security, the two things they want next are privacy and mobility. Consider what the Russian middle class is now doing with its income. It, too, wants a *dacha* in the country and a *Moskvich* to get there—the perfect symbols for privacy and mobility. And the same thing is happening in Japan, except that there they ride Japanese motor scooters instead of automobiles. In fact, the trend may well turn out to be universal. Certainly, recent studies comparing consumption patterns here and in Western Europe show only trivial variations in demand once adjustments have been made for price and income differences.

Q But countries like the Soviet Union are not free to follow consumer preferences in this matter.

A That is true. While I believe that Communist countries would, if left free to follow consumer preferences, go the same way as the rest of the industrialized world, the major purpose of the Soviet government at present is to control the consumption process so as to prevent this from happening. This is not only a question of saving resources

for capital equipment and armament. The mass automobile, for example, diverts resources for roads, gas stations and hamburger stands; it also provides a means whereby the Soviet citizen can obtain mobility and privacy. Khrushchev has formally announced that he does not intend to imitate the West in this matter. Instead of the private automobile, the Soviet government will go in for fleets of government-controlled taxicabs equipped, as was significantly explained to me, with transistor radios. In this way, the privacy involved in owning your own automobile will have been eliminated.

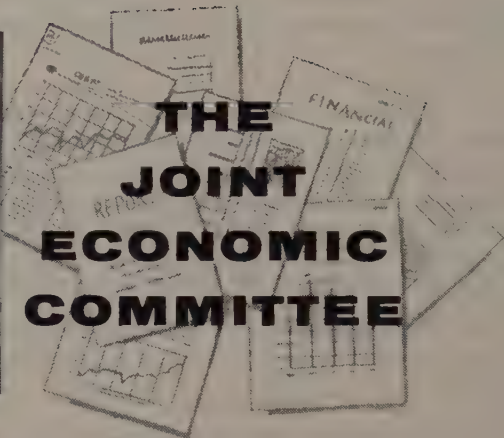
Q Do you think that the Soviet government will get away with this?

A My guess will be that it will—for perhaps a generation. But sooner or later the Russians will want to hit the road on their own with their families, just like the rest of the human race.

Q If, as you say, the Soviet Union will move increasingly in the direction of more consumption—and more private property—won't this diversion of resources for private ends tend to limit the aggressiveness of Soviet policy?

A To a very limited extent the official sanctioning of these consumption values may diminish the aggressiveness of the Soviet government. But, given the current Soviet growth rate, there is no reason why consumption cannot expand substantially without placing any limits on the resources available for military and political purposes. I believe that higher consumption in Soviet society can, in itself, make only a very minor contribution to world peace. Much more important, in this context, is the diffusion of power (both nuclear power and, beyond that, industrial power) into parts of the world which neither the U.S. nor Russia can control. If the free world maintains a strong stance, I believe it will gradually be driven home on the Russians that any dream they may have of world domination—and even ideological domination—is based on a rather hopeless illusion. For, in this matter, time is against her. In the end, Russia will have to accept her destiny as one substantial major power among a group of such powers in a world where domination is increasingly difficult.

Q Thank you, Prof. Rostow. ■



THE JOINT ECONOMIC COMMITTEE

by Robert C. Turner

■ TO PARAPHRASE a familiar saying, *adversity is the mother of economic invention*. The 1930s were a decade of great economic adversity. It is no coincidence that in the area of economic analysis and theory it was also the most productive decade in modern history. By contrast, the highly prosperous postwar decade, 1945-55, was, with a few important exceptions, a relatively sterile one. It is true that it was also a decade characterized by two sharp inflations; but relatively few people felt that on balance they were seriously hurt by the realignment of prices and income. Moreover, the old theories seemed to explain the inflation satisfactorily.

Only since 1955 has economic inventiveness begun to reappear. The

"adversity reasons" for this resurgence have been of a peculiar variety. There has been no great depression; even the 1957-58 recession was minor. What distresses economists is that the burgeoning economic growth, which a new generation had come to accept as perpetual and indeed inevitable, has given evidence of slowing down alarmingly. This slowdown in the rate of growth is made doubly depressing by the blatantly repeated (but largely valid) boasts of the Russians that their rate of economic growth far exceeds our own.

A second adversity reason is the continued inching up of the price level. What is disturbing is not just the fact that prices have gone up; since 1951 the amount of increase

has been quite modest. Rather, it is that prices have gone up at times when there was no aggregate demand pressure to account for it. The old theories do *not* explain this new kind of inflation.

A quite different sort of adversity reason arises from the fact that the Presidency and the Congress have been under the control of opposing political parties. Fair or not, it is a fact of political life that the President takes both the credit and the blame for the prevailing degree of economic well-being. If the Congress is of the opposite political party, it is under political compulsion to find fault, to ferret out and call economic ills to the public's attention. Hence, it is not surprising that some of the most productive economic thinking of recent years has come as the direct or indirect result of the activities of a Democrat-controlled Congress and more particularly of the Democrat-controlled Joint Economic Committee of the Congress.

The Employment Act of 1946 created the Council of Economic Advisers, as everyone knows, and also the Joint Economic Committee, as everyone does not know. It seems clear that the framers of the Act contemplated that the Council, assisted by a high-powered staff, would be the chief analysts of economic policy. The Joint Economic Committee, on the other hand, with its small and virtually anonymous

staff, was assigned the role of *reviewing* the work of the Council. For the first years of the Act's history, things worked out about as planned. The Council produced provocative reports and made headlines; the J.E.C. was seldom heard of outside of Washington.

Gradually, however (especially since 1953), the role of the Joint Committee began to change. The J.E.C. staff began turning out studies that, although they did not gather many headlines, were recognized by an increasing circle of economists as high-quality economic researches. The J.E.C. recognized that if economic policy analysis is to be effective, it must be future-oriented, and prognosis and prognostication require that somebody go out on a limb. The Joint Committee and its staff therefore seized the initiative, indulged in quantitative projections of economic growth and made comparisons of actual performance with calculated projections.

When these comparisons revealed conditions of adversity (e.g., performance substantially below potentials), the next step was obvious: "Why?" The J.E.C. therefore launched a program of research directed toward answering this question. The result has been a series of Committee hearings, research papers and staff reports of a quality to attract nationwide attention, not only among professional

economists, but among many lay readers as well.

These staff studies have taken two general forms. First is the staff paper prepared by the Joint Economic Committee's own staff. Second is the compendium, a volume of related papers by a group of outside economists. About two years ago, for example, some 44 academic economists were invited to submit papers on various phases of the topic, "Relationship of Prices to Economic Stability and Growth." This compendium was followed by another in which a group of economists from business and labor organizations were asked to comment on the first compendium.

Well-written and useful

These contributed papers were generally well written and useful, but the approach was that of the shotgun rather than the rifle. Much duplication resulted, and the researchers were not pointed to any well-organized set of conclusions. In its most recent effort, therefore, the Joint Committee followed a somewhat different technique. In the "Study of Employment, Growth and Price Levels," the Committee hired a group of economists, generally young, to engage in an integrated research program under the supervision of a "technical director," Otto Eckstein of Harvard. The result was a series of 23

"study papers," totaling some 1,300 pages.

On the basis of these study papers, as well as the record of the hearings conducted by the Joint Economic Committee, and formal statements prepared by a number of government and outside organizations, a second staff of economists (again under Eckstein's direction and with the assistance of the regular staff of the Committee) prepared a staff report that integrates and summarizes the 23 papers and draws policy conclusions.

As a result, the Joint Committee has succeeded in massing and welding research by independent scholars into an integrated analysis that reaches positive conclusions. The staff report, although it shows signs of too hasty preparation (e.g., numerous typographical errors and minor inconsistencies), is an important economic document which overshadows, in its analytical content, the Economic Report of the President.

One reason for this contrast between the Economic Report and the work of the Joint Economic Committee and its staff is the fact that the Economic Report, although written largely by the Council of Economic Advisers, is presumably in the words of the President, who is admittedly not an economist. A deliberate effort is thus made to write it in nontechnical language.

The study papers and staff report of the Joint Committee, on the other hand, are technical documents, addressed to a much narrower group of readers. This raises the question: Will such a technical and analytical set of papers have any demonstrable effect on the course of human events?

The answer to this question probably is: some now, more later. The staff of the Joint Committee, in this and in previous economic papers, has gone to considerable pains to put its materials in a form that is both understandable and of sufficient brevity to fit into the crowded time budget of a Congressman or business executive. The reports are summarized, and the summaries are summarized.

Platitudes and slogans

Probably no single economic study has any measurable impact on the thinking of a large number of Congressmen. Still it is my impression, from working with various Congressional committees over a period of 20 years, that the degree of economic literacy of members of the Congress has risen very appreciably. It is also my impression, incidentally, that the average Congressman is a *much* more intelligent and better informed man than most people give him credit for being. The platitudinous remarks on the floor and the hackneyed political speeches during

campaigns are largely a protective masquerade for the benefit of that considerable (but hopefully diminishing) group of constituents who vote on the basis of slogans and clichés rather than on the issues.

The reports are also read by another strategic group of persons: professional economists and top staff people in the Executive branch of the federal government. Perhaps the most avid group of readers are the staff advisers of the Board of Governors of the Federal Reserve and of the Federal Reserve banks. The reports have been not only critical of recent Federal Reserve policy, but have challenged the analytical foundations on which that policy has been based. Another group of eager readers consists of economists for trade associations, labor unions, farm organizations and large corporations. These men are paid to keep abreast of advanced and policy-oriented economic thinking.

The business press

Perhaps not many business executives will take the time to read these reports in full or even in substantial part, but the ideas contained therein will reach them through the business press. Not only have the financial newspapers and news magazines reported these studies rather fully (*Business Week*, for example, published a feature story on Dr. Charles L.

Schultze's Study Paper No. 1, on the causes of recent inflation), but idea-hungry business news columnists and magazine article authors find these papers to be an invaluable source of raw material. Sometimes the analysis suffers from the filtering, but a portion of it seeps through.

In addition, these studies have come to be standard fare in many graduate and some undergraduate economics courses and in occasional executive development programs. Slowly but surely, in the education process, ideas gain currency.

A surprising aspect of the research work of the Joint Economic Committee staff is that, in the main, it has avoided political orientation and labeling. Much of the credit for this must go to Grover Ensley, for many years staff director to the Joint Economic Committee, who managed to avoid political bias so effectively that he was retained continuously by successive Republican and Democratic majorities in the Joint Committee.

In the minority opinion in the current report of the J.E.C., the dissenting members say: "On the

whole, the study was conducted in a competent and objective manner. . . . A literature was assembled. . . which reflects credit on the Committee, on its special staff and on the economics profession." The minority then proceeds to register mild objection to the lack of objectivity in the summary staff report and to blast the report of the Committee majority. In so doing, however, they accept most of the *analysis* in the underlying documents. Their protest is directed at some of the inferences which the majority drew from this analysis, and particularly at the way in which these inferences were marshaled so as to discredit the incumbent Administration. All of which simply proves that the road from economic theory to policy action is strewn with political obstacles and booby traps.

When the inevitable political fuss subsides, there will remain a body of economic analysis, much of it fresh and new, which is and will continue to make a major contribution to rational economic policy-making and to economic literacy in the nation as a whole. ■

Hybrid Trees

U.S. TREE GROWERS expect that hybrid forest trees will be developed in the near future that will grow to harvest size in half the time required by nonhybrid trees. A hybrid pine has already been developed which, when three years old, is twice as tall and three times as heavy as its parent stock.

THE GREAT DISENCHANTMENT



by George S. Odiorne

■ SINCE THE END of World War II, the minister, the college professor, the labor reporter and other independent intellectuals in all walks of life have lost much of the zeal they once displayed for labor union goals and methods. In the face of more immediate and obvious problems of the labor movement, such as the decline of membership in certain large industrial unions, the antiunion campaigns of management and Congressional pressures against abuses, this slow disenchantment with labor on the part of many intellectuals has little of the urgency and stress of recent newspaper headlines. Yet if this trend is unchecked, it could contribute more to the decline of union influence than any overt action by the opponents of labor.

Leaders of the labor movement have in fact had little appreciation of the importance of the intellectual as an independent opinion-maker and as a champion or an enemy of the union cause. Decidedly action-oriented, and in some cases extremely hostile to intellectuals in general, the hard-bitten organizing and propaganda experts running the key unions tend to scoff at the eggheads' disillusionment with the union cause. "Who needs them?" one labor editor wrote of intellectuals, "We'll create our own."

Harold Wilensky, in his classic study, *Intellectuals in Labor*

Unions, painted a sharp portrait of the uneasy view which the labor executive takes of the intellectual on the union payroll. While perfectly willing to accept the highly educated man for his knowledge, the labor leader is careful to prevent his gaining any semblance of control in union administration. "So he's a genius," one labor leader said of an intellectual in his employ. "You couldn't name two places he could get a job if he didn't work for me."

From the time of Gompers, an attitude of suspicion toward the educated man has characterized union leaders. In the past, this suspicion has been based on a mistrust of the ultimate objectives of the intellectual in union ranks. The union leader in America is solidly conservative in his social ideas for all his troublesome actions. He does not want to change the social structure. But in hiring intellectuals he sometimes fears that he risks steering labor into devious paths.

Sense of power

Still, union leaders enjoy the sense of power which it gives them to be able to summon an intellectual by pushing a buzzer. Wilensky attributes union tolerance of intellectuals in their ranks as a desire to maintain "window dressing." Because of his own limited educational background, a union leader views the presence of intellectuals on his

staff as adding "class" to the union movement, giving it the aura of respectability which simple self-seeking always lacks.

It was not until some time after World War II, and especially after 1950, that union intellectuals began to leave union headquarters and go back to the universities. The unsympathetic attitudes of union management toward their presence in union ranks seems to have had little to do with their retreat to the academic world. As one former union economist said, "I don't think we expected to be fully accepted by the unions. After all, we are not unionists; we are economists working for something we believe in. It happened at the time that the best place to work for that was in union headquarters."

What then was the reason for this retreat? In order to answer this question, we must understand why the intellectuals were attracted to unions in the first place.

At first, the intellectual saw the labor unions as an aspect of a broad social movement rather than as a special economic interest group. Before 1935 the working man had little protection against sickness, old age or unemployment. These naturally became practical objectives for union leaders in their bargaining demands and in their lobbies in the legislature.

Considering union objectives at that time, it was natural that the

independent intellectual in press, classroom and school saw the unions as advocates of justice, even though the leaders of the union movement themselves never pretended to be advocates of anything less tangible than *more*. The intellectual, in his moral fervor for social justice, read things into the motives of labor leaders which never existed. The fact that the objectives of the two groups happened to coincide for such a protracted period of time was nothing more than coincidence.

Silent withdrawal

With the decline of New Deal liberalism after World War II, the unions were deprived of a ready-made philosophy and began to be seen as a special-interest group treating labor as a commodity to be sold at the highest possible price. From such a philosophy the dedicated union intellectual fled in revulsion back to the university and began to write exercises about unions and the public interest. The silent withdrawal from behind the union banners of such independent opinion-makers as the labor reporter and the news broadcaster has perhaps been even more significant.

Thus, without the intellectual rationale of liberalism behind it, the union movement lost its attraction as a vehicle for social reform. The liberal today is more concerned

with civil rights and putting an end to atomic bomb tests. He is still sympathetic toward labor, but he has great reservations about some of the objectives of certain successful unions. Actually, it is the success of unions that has served to shrink the importance of labor's plank in liberal policy. After all, there is no social ideal involved in trying to raise the hourly wage of steelworkers to \$3.51. Consequently, the literature of social protest today is no longer concerned with the economic plight of the common man. It is more concerned with his lack of values, the emptiness of his outlook. Arthur Miller's *Death of a Salesman* and W. H. Whyte's *Organization Man* have replaced the novels of Upton Sinclair and Theodore Dreiser as negative commentaries on our way of life.

If a single event can be pointed up as the crystallization of the intellectual position vis-à-vis labor, it was the steel strike of 1959. As the parties to the strike continued their adamant holdout, it became apparent to many that social justice was not to be found easily on either side. With the issues of social welfare and reform stripped away from the steel strike, the dispute was revealed as a naked power struggle between two hardbitten interest groups indifferent to the interests of the public. For the first time in a major strike the mass reaction of the public was toward

neutrality or "the public interest."

The intellectuals reflected the public's reaction. The National Council of Churches quietly stated its position as neutral. Clint Golden, former Steelworkers vice president and now a college professor, opined that "the power struggle between big business and powerful labor unions may force government intervention unless a third party—other than business or labor—is given a seat at the bargaining table." The reflective press, typified by A. H. Raskin of *The New York Times* (see CHALLENGE, March, 1960), wrote eloquently of the struggle between two self-interest groups who could hurt each other far less than the general public. Labor was on an equality with management at last, and therefore had to be judged simply as another economic power bloc.

What will be the future role of the intellectual in labor-management relations? Barring any drastic shift in power, it seems unlikely that there will be any reversal of the present trend. Thus, the public interest will no doubt continue to be the criterion which will be used in judging the actions of labor and management. The problem of how to avoid inflation, which places hardship of another kind on the public, will almost certainly receive the attention of some intellectuals. In fact, management's concern with the inflationary effect of wage

increases has led some independent thinkers to feel a new sympathy for the position of management.

One of the imponderables in the present situation is the action management will take in the face of the new balance of power between labor and management. Certainly, management efforts to reduce costs will bring about greater emphasis for more rigorous work rules and a more careful definition of what constitutes a fair day's work. Automation, with its cost-reducing effects, will also receive a new emphasis. Increased automation may possibly cause unemployment. There is no doubt that widespread unemployment would revitalize the interest of the liberal-intellectual in the working man. But whether an unemployment situation would bring him into organized labor's cause again is problematical.

Ambivalent attitude

On the other hand, it does not seem likely that the intellectual who has deserted the union movement as a cause will move to the opposite side of the conflict and espouse management's cause. True, management, like the unions, has its quota of intellectuals serving in staff capacities in market research, personnel, research, economics and industrial engineering. As in the unions, these intellectuals find that their employers have an ambivalent attitude toward them. Relatively

few of them find their way into top-line positions, and their acceptance as researchers and experts leaves many old-line managers uneasy about them.

This is due to the fact that the intellectual is not always intent on participating in the company's arduous pursuit of profits. He is more interested in problems pertaining to employee relations, cost reductions, the effects of inflation, etc. He is not taken in by the "romance of industry" line put out by the company's crew of public relations men.

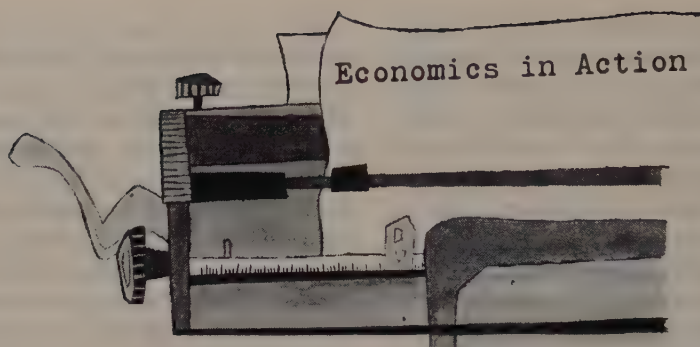
Barring a drastic shift, the independent intellectual of today may be expected to rationalize his present middle ground and develop a theory of social reform which works first for one side and then the other, as the public interest suggests. The bewildered, the oppressed and the exploited in such places as the school, the farm, the civil service, the ranks of the re-

tired and the armed services will attract his efforts far more than the situation of the union member.

How this will affect the vitality and strength of the labor movement is likewise imponderable. With its present leadership it seems most unlikely that successful unions will radically change their programs. Political pressures upon union leaders from the membership (who now represent a minority of workers) for greater and greater advantages, is the most pressing problem the unions will face in the next decade. Present union leadership has little experience in leading the membership in paths of self-restraint for the sake of "the public interest." Such a mission might possibly be assumed by the independent intellectual. To the unions, this will inevitably seem to be nothing less than an attack against them. The result could be a complete rift between intellectuals and their former friends. ■

Gracious Living?

LONG A HOUSEWIVES' DREAM, a dining table that automatically clears itself and washes the dishes at the flip of a button, has been patented (but is not available commercially). The inventor (a woman, of course) has built a table with a top consisting of a continuous plastic belt with depressions that serve as plates and bowls. Although saucers are built into the table top, cups, glasses and silverware must be purchased separately. When the meal is finished, the hostess presses a button (after first removing glasses and silver and placing them on a tray) and the belt disappears into a washer that is built into the table top to emerge minutes later clean and ready for the next meal.



**sharp
GNP
rise**

According to preliminary Commerce Department estimates, gross national product neared a record \$500 billion in the first quarter of 1960, at projected annual rates. The gain over 1959's fourth quarter is the largest three-month gain since the first quarter of 1955. President Eisenhower has predicted that 1960 will see a GNP of \$510 billion and some optimistic economists envision a \$525-billion year. The marked first-quarter increase in GNP can be largely attributed to the rise in industrial production. The Federal Reserve Board's seasonally adjusted index of industrial production for February was at 110 (1957=100)—eight points above February, 1959.

**prices
go up**

The sharp rise in GNP was accompanied by a February increase in the Consumer Price Index—contrary to Bureau of Labor Statistics predictions. Consumer prices rose two-tenths of a point, reaching 125.6 (1947-49=100). After slight decreases in December and January, the Index returned to the all-time high of November, 1959. The bulk of the price increases reflected the constantly rising costs of services. For 1960 as a whole, BLS believes that the total price increase will be about 1.5 per cent—the same as 1959.

**unemployment
down**

By far the most encouraging late winter economic sign was the drop in unemployment—which usually changes very little in February. The 218,000 drop in

unemployment, to 3,931,000 between January and February, was the greatest January-February decline since the war year of 1942. This brought the seasonally adjusted unemployment rate down to 4.8 per cent of the labor force, the lowest ratio since October, 1957. The drop in unemployment was accompanied by a record February employment level of 64,520,000. Although employment in manufacturing remained steady, it reached new highs in trade, the service industries and state and local government. The arrival of spring will see an even further increase in employment opportunities and a consequent decline in unemployment. Since the railroads and the brotherhoods are apparently resolving their differences, the employment picture will be further aided by relative labor peace for the rest of 1960.

**economics
and
elections**

The sharp rise in GNP during the first quarter, and predictions that it will reach a projected annual rate of at least \$510 billion by the end of the year, will tend to blunt the charges of leading Democratic Presidential aspirants that the economy has failed to grow sufficiently under the Republicans. This growth rate will be even more impressive if predictions of only a 1.5 per cent increase in the consumer price level hold true. The party in power will also be aided by the expected drop in unemployment between now and November, which will weaken opposition charges that recessions occur under the Republicans. These charges, however, will be highly effective in those areas beset by chronic unemployment.

**the
issues**

Given the present economic situation, with neither inflation nor recession a discernible threat and with both parties committed to full employment, the outcome of November's Presidential election will probably not hinge on economic issues. It will depend on the overriding issues of party, personality and peace. ■



by Edward and Mildred Marcus

THE ECONOMICS OF INDEPENDENCE

■ IN 1960, three former West African colonies—Nigeria, Togoland and French Cameroun—become independent. They join in freedom three of their neighbors—Liberia, Ghana and Guinea. How will self-rule affect foreign investment and the operation of foreign business in the area? Will African nationalism, like the nationalism in other underdeveloped regions of Asia and South America, become antiforeign?

Although it is still too early to draw any firm conclusions, there are some clues which provide at least temporary answers to these questions. During our recent trip through the area, we came upon some encouraging evidence that the West Africans will, indeed, welcome the foreign investor, espec-

ially if he plans to establish a new factory or mine. Here is a brief review of the economic problems that will face these new nations, the efforts being made to meet them and our impressions of the future business climate.

The West African economy is primarily agricultural, although a start has been made in developing mineral and petroleum resources—bauxite in Guinea and Ghana, petroleum, tin and manganese in Nigeria, and iron ore and diamonds in Liberia.

Surprisingly, much of the land in West Africa is unproductive. Along the coast there are vast stretches of sand which are unsuitable for raising cash crops. Much of the hinterland has suffered heavily from erosion—the result of poor farming

methods and heavy rainfall. In addition, vast areas that might be suitable for cattle grazing are in the tsetse fly belt.

The low standards of living of West Africans are evident to any visitor. No city or village is without the blind and deformed. Many Africans suffer from poor diet and unsanitary living conditions. In the rural areas more than half the babies born fail to survive childhood. There is no real starvation. In fact, many look well-fed from an abundance of bananas and manioc, but the daily ration is usually very low in protein. Fish and meat are the major deficiencies.

One method of mitigating the area's poverty would be to draw on foreign capital and establish a more diversified industrial structure. By introducing Western production techniques, output per capita could be raised and eventually so could per capita income. The increase in local income would, in turn, expand the domestic market and make it more attractive to further foreign investment. This is the plan of operation of most development programs.

Obviously, there must be obstacles, for no West African country has as yet been able to establish a successful program of industrialization. True, the urge to industrialize has received emphasis only since World War II. But the main obstacle is not one of time; it has

to do with the problem of labor.

Because of the high birth rate and the declining death rate, there is a population boom throughout West Africa. One gets the impression, in traveling through the area, that every African woman is either pregnant, carrying a very tiny tot, or both! Crude estimates place the annual population increase at more than two per cent—a rate which would double the population in 30 years. Thus the supply of labor is tremendous.

But nowhere in the area is there a pool of trained labor. Available manpower is raw—recruits from the “bush,” to whom the wheel is a novelty and steady work habits a mystery. Even in relatively cosmopolitan cities like Dakar, Accra and Lagos, few Africans are more than one generation removed from tribal life. As a result, any new industry has the problem of training unskilled labor. Every operation, no matter how simple, must be taught.

Wage rates are correspondingly low, to match poor productivity. Still, few managers are satisfied that the work force is really cheap even at wages of 75 cents a day. Also, the small number of trained laborers that do exist are far from efficient; three, four or even more Africans are usually required to do the job of one European. The wages of such ostensibly trained personnel are no longer low—nominally perhaps \$60 per month. Con-

sidering the low productivity of the worker, this wage, though it may seem menial to the Westerner, represents a considerable expense for the manufacturer.

Even after the period of training, the work force presents its peculiar problems, all tending to increase production costs. Absenteeism is very high. So is labor turnover. Some firms report an annual hiring rate of 150 per cent, or a completely new staff every eight months. The main reason for this situation is that the African laborer often wants only a short-term job—perhaps to earn enough to pay a “bride price” in his village. Once he attains his wage objective he goes back home. As a result, many partly trained workers are lost by industry.

Moreover, unless the African worker is constantly supervised while he is on the job, his productivity is nil. Even African workers at relatively high levels show a constant decline in efficiency if unsupervised for any length of time.

‘Extended family’ system

Tribal differences must also be taken into account in labor policy. Where teamwork is essential, the members of the team must come from the same tribe. One large firm in West Africa uses tribal antagonisms to install a self-working audit; to prevent collusion in its financial operations it makes cer-

tain that the clerks are from one tribe and the supervisors from another. Otherwise there would be danger of cooperation against the company.

The “extended family” system which characterizes African relationships further complicates labor policy by tending to inhibit the African workers’ desire for material advancement. Family ties are much stronger than in Western civilization and embrace more than just the immediate relatives. As a result, a job promotion usually unleashes a host of idle kin who swarm like ants around fresh honey. It is thus not uncommon for a promoted employee to ask that any wage increase be paid in a separate pay packet. Should this not be feasible, he may simply refuse the increase since he could not afford the extra family expense that added well-being would create.

At first the obvious alternative to the local problem seems to be the hiring of foreigners—men who are skilled and have proper work attitudes. But this would likely antagonize nationalist leaders, who are constantly working toward greater Africanization of labor. Moreover, in order to attract the employee from abroad, wages must be high. Also, if the plant is away from the larger cities, many amenities must be provided in the way of hospitals, a good water supply, cinemas, golf courses, etc. Another expensive

item is home leave for the foreign employee and his family, usually every 18 months, with passage paid both ways by the company. Hence, total employee costs for European or American personnel are at least double what they would be in Western Europe or in the United States.

Law and politics

Another serious labor problem stems from the fact that the few educated Africans tend to look to law and politics as the only suitable careers. A local Texaco representative told us that most educated Africans are averse to industry jobs. "Imagine a university graduate working at a filling station!" seems to sum up the feeling. As a result, the local Civil Services have little difficulty recruiting staff, while commercial firms must seek for months for junior executives. Fortunately, there are signs of a change in this attitude. The University College of Ghana now has an American professor lecturing on business administration, and educated Africans are beginning to seek employment with the larger companies, especially petroleum and trading firms. Many of the African and European businessmen we interviewed in the area believe that independence will help to change the interests of the African intellectual. Now that he does not have to struggle against European powers, he is likely to turn his en-

ergies to the solution of local economic problems.

Unfortunately, African entrepreneurship in West Africa is rather weak, except in trade and trucking. Here, women are particularly prominent, and the "mammy traders" and their "mammy lorries" have earned a reputation throughout the region for sharp bargains and good profits. But very few Africans have ventured into manufacturing. Almost all such possibilities must be developed by foreign investment.

Land tenure is another problem that faces the new investor in West Africa, particularly in the development of agricultural and mineral resources. It is virtually impossible for a European to purchase land, and also quite difficult for him to rent any sizable property, since the tribal pattern of living casts doubt on the legality of private ownership. There is also considerable hostility toward alienation of the country's resources. This tends to inhibit the development of the plantation system which, by using modern techniques and equipment, would raise per acre crop yields appreciably. As a result, much of West Africa's agricultural productivity is far below its potential and may not even be keeping up with the expanding needs of its growing urban population.

Faced with such obstacles, the independent West African coun-

tries have had to rely to some extent on their government, for development. Ghana, Nigeria and the individual Nigerian regional governments have set up development corporations to finance new enterprises. They have stepped in where local initiative has failed to act. But they have not interfered with the opportunities that might be of interest to foreign capital. Indeed, in some cases, they have cooperated to spur foreign participation, allowing almost complete freedom of convertibility of current earnings and the repatriation of capital.

Nigeria and Ghana have passed legislation which is favorable to the new foreign investor. Tax concessions and aid for the acquisition of satisfactory land sites are two of the ways the governments have been of special help. And government purchasing contracts have favored local suppliers, including non-resident companies.

Significant statements

Especially significant are repeated public statements by Nkrumah, Ghana's Prime Minister, and Nigerian leaders, both at the federation and regional levels. These statements have indicated that West African leaders recognize their need for foreign capital and the inability of their people to develop on their own. In fact, some residents in Accra told us that

Nkrumah's eagerness to attract foreign capital will probably induce him to persuade his labor leaders to follow a moderate labor policy.

As evidence of the confidence foreigners are placing in the new governments, foreign business is thriving more than it ever did under the former colonial regimes. Foreign industry in West Africa has responded to the market growth implicit in the current development programs of the area. Both Ghana and Nigeria are undertaking five- to seven-year development plans, each involving about \$1 billion in outlays. This is indicative of the evolution of these areas from economies where the principal opportunities are in mining to economies having an internal market offering profit possibilities for local manufacturing. Meanwhile the development of natural resources is not being neglected. Shell-British Petroleum spent about \$56 million in Nigeria in 1959, 40 per cent more than in 1958. The exploration efforts of Shell-BP and Socony Mobil will probably result in Nigeria's meeting her own petroleum needs within a few years.

Already there are more foreign businessmen in Accra than there were before independence. The United Africa Co., Unilever's giant trading company and a veteran of West African operations for generations, has stepped up its capital

expenditures sharply. In 1957-58 it spent two-thirds more in British West Africa than it did in 1954-55. Over the next three years its projects will total almost \$8.5 million in Ghana alone, or almost as much as it has spent in all British West Africa in any preceding year. The new units will include a motor plant, a plywood mill, a soap factory and a brewery.

Vigorous policy

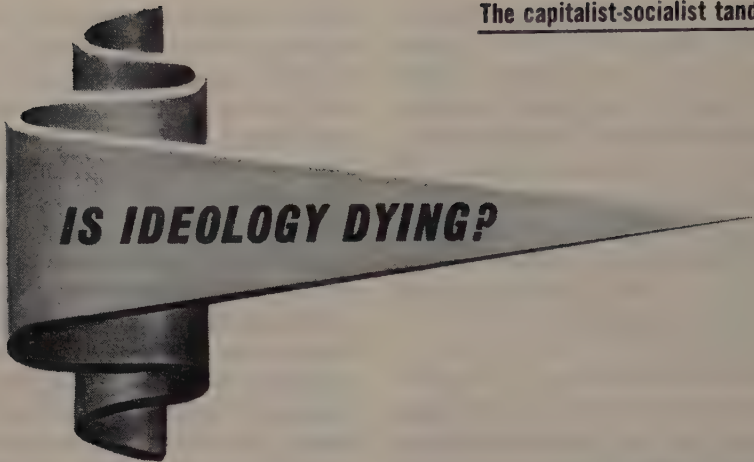
United Africa Co.'s confidence grows out of its successful relations with the African. It has pursued a vigorous policy of Africanization and it foresees the day, as one of its regional managers told us, when every job—even those at the top managerial level—will be filled by local African personnel. The company is thus identifying itself with the African drive for development—building new plants in the new Africa and training local employees to eventually attain any level within the organization that their capabilities merit. The com-

pany is withdrawing from those sectors in which the African can compete successfully on his own, such as local retailing, and is concentrating on the industries still new to him, primarily manufacturing.

The implications for the foreign investor are thus clear. He will be welcomed if he contributes financially and technically to those sectors where the economy is now weak—and this covers almost all manufacturing and large-scale processing. He will find a more hostile reception if he tries to enter fields which the African feels he can carry on himself, such as trade and commerce. Most important, the foreign investor will receive genuine cooperation if he pursues an honest policy of Africanization—upgrading African employees to eventually assume responsible positions instead of forcing them to remain second-grade employees. For the West African needs his self-respect as much as he needs a higher standard of living. ■

Rising Land Ownership

THE FEDERAL GOVERNMENT recently announced that the United States purchased approximately two million acres of land between fiscal 1958 and fiscal 1959. At the end of 1958 the federal government owned 769.7 million acres of land worth \$45.6 billion dollars, including buildings. At the end of fiscal 1959 the federal government owned 771.7 million acres throughout the world, worth some \$49.2 billion dollars with the structures on it.



IS IDEOLOGY DYING?

by Eugene O. Golob

■ MANY ACUTE OBSERVERS of the current scene have spoken of the decline of ideology. Not only do the chief ideological banners of our age—capitalism and socialism—appear increasingly undifferentiated, but ideology itself seems to be dying. Ideology, in the sense of a more or less consistent philosophy that serves its adherents both as a tool to clear the way through difficult terrain and as a standard around which to rally, will play a diminishing role in political debate. Or so it is asserted.

The reasons for this estimate are not hard to find. Professed capitalists now accept with hardly a murmur such manifestations of “toddling socialism” as counter-cyclical public finance and govern-

ment inquiry into, and even control over, their investment policies. They accept the presence of powerful and assertive trade unions and of a bargaining process in which the state may take a hand. Nor do they feel threatened by the growing activity of governmental and non-profit “private” agencies in health, science, education and welfare.

As for the professed socialists, they may still talk of class conflict, and they may even make respectful mention of Marx, Engels or other departed patrons. But they are increasingly apologetic and half-hearted in their demands for nationalization of industry. In fact, they find it increasingly difficult to offer proposals that are distinctively socialistic. And they no longer

talk of the forthcoming revolution.

As socialism has gone revisionist and capitalism neomercantilist, the lines of principle between them have become blurred. Both camps have adopted the welfare state. Ideological debates between them often sound like a ritual chant whose original meaning is locked in the obscurities of history.

The postwar world has repeatedly witnessed the ironic, though by no means surprising, situation in which socialist parties and governments display a xenophobic nationalism, especially in economic matters, while capitalists struggle to promote competitive economic development.

Here in the United States we find leftish Democrats charging rightish Republicans with selling our defenses short, which is tantamount to suggesting that our conservatives are "soft" on communism. True, Mr. Eisenhower still pleads for a balanced budget, and points with alarm to the national debt, nostalgically reminding us of the good old days when doctrines were young and vigorous, and one could swell with pride and indignation in a principled debate. But after we have noted that Democrats tend to be more afraid of deflation than of inflation, and Republicans of inflation than deflation; after we have accepted the proposition that Democrats are more eager to expend money for goals that are identical

to the goals of Republicans; and after we have convinced ourselves that there are real and perhaps decisive choices for us to make between the parties and their candidates—we must nevertheless conclude that there are really no echoes of familiar philosophic disputes in party politics today. The terms *left* and *right* only serve to reflect differences of emphasis and degree.

Ideology has fallen on slack days even in the Soviet Union, where it is still addressed with veneration. In the time of Stalin or Lenin, the dispassionate outsider could never be sure, from one situation to the next, exactly what orthodox Marxism implied. But he could be certain that there *was* an orthodoxy which would be forcefully and wordily defended.

Lately, however, there has been a general blurring of policy and outlook, reflecting the fact that Khrushchev is not a very theoretically minded person. The Soviet Union reveals itself in purges, much as we do in elections. But whereas in the old days the forces of right and truth always struck down heretics—Trotskyites, Bukharinites, etc.—there are now no Berianiks or Malenkovites to be expunged; there is only a drab "anti-party faction." The party apparatus and its control is the real issue, and this fact is no longer even hidden by dogmatic dispute.

For the left, right and center,

ideology seems obsolete and discarded. Thus neutralism, which claims to hold the middle ground, whether expounded by Nehru or a dejected French intellectual, is an explicit rejection of ideology and a denial of its relevance to contemporary affairs.

But before we begin to bury ideology, let us stop and ask ourselves what precisely we mean by this word. We must not let ourselves be ensnared by Marxian usage, which defines ideology as a rationalization or intellectual justification for the interests of a particular social class. In this sense, ideology is indeed dead, because the Marxian theory of class struggle is not an accurate interpretation of modern history. It is a propaganda weapon rather than a description of modern reality or an instrument of social analysis.

There is another sense, however, to the meaning of ideology. Ideology can also mean a broad theoretical outlook, an understanding of man's manifold social relationships in a way that is generally consistent with a philosophical and religious foundation of belief.

Familiar tandem

In this sense, there will always be ideology as long as men seek to place their actions and decisions in a broader context, as long as they seek to justify their behavior to themselves and to others as some-

thing better and more meaningful than a simple expression of narrow interest. When ideology is viewed in this light, even the familiar tandem of capitalism-socialism continues to focus issues and exert influence, particularly in new and economically underdeveloped nations.

In part, the story is simply this. What a few acute observers had seen, as long ago as before World War I, is today apparent to many. The capitalism of orthodox theory makes no sense as description, explanation or justification of the mixed, muddled but enormously successful political economy of the free West. The sins of capitalism as described by Marxism are likewise chimerical, and so are the allegedly self-evident advantages of socialism. Ironically, then, capitalism-socialism has, in fact, declined in the European world, from Russia to the United States.

The *ideology*, however, has survived, not only as exported to underdeveloped areas, but in the way in which the industrial peoples look upon the problems of these areas. It is understandable that in a country like India, where there are both Western-type industrial magnates and Western-type intellectual radicals, the choice between capitalism and socialism should seem a real one for domestic option, and neutralism a sensible and realistic basis for foreign policy.

It is also understandable that the new and very backward nations of Africa should have an oversimplified notion of the foundations of national prestige and greatness. Prime Minister Kwame Nkrumah of Ghana, for example, has advocated a large military establishment so that "other nations, especially the big powers, respect us more." Nor is it surprising that these countries should find comfortable self-justification in the notion that the "imperialist" (or investing) powers have held them back, and that "socialism" is not only the equitable but the expeditious path to wealth and glory.

Abandoned argument

On the other hand, it is distressing to see nearly all of our Western statesmen applying to underdeveloped areas the conclusions of an ideological argument that they have themselves abandoned. They accept, uncritically, the idea that the outcome of the cold war will be determined by the ultimate choice of the uncommitted and largely underdeveloped new nations, although it is extremely difficult to see what military or economic pressure these countries could exert within the next half century. By reducing poverty and ignorance through Western-type investment and education, they hope to insulate these peoples against the blandishments of Soviet propaganda.

But they ignore two very important points. First, modern history seems to show that the *initial* effect of Western education is to prepare non-Europeans to receive Marxism, which is an easily mastered "science" of everything. It takes much more training—and, above all, time—to appreciate the subtleties, reservations, doubts and uncertainties of the mature Western outlook. Initially, therefore, some of our efforts will benefit the Russians rather than ourselves.

Second, the kind of investing we are apt to encourage—and that our private agencies are most likely to engage in—may actually reinforce the suspicion that we are trying to hold the underdeveloped people in a position of economic vassalage to our industrial empires rather than elevate them to equality with ourselves. After all, we are not usually eager to build steel mills in the jungle. Better methods of cultivating cocoa beans or peanuts, or of raising cattle, while more to the point, are much less glamorous than useless airstrips, which have the virtue of being very advanced and Western.

Having spoken for both the death and the survival of ideology, I would now suggest its reincarnation in different guise here in the United States and elsewhere in the Western world. We may have discarded the 19th-century capitalism-socialism ideology. But, as always,

we shall continue to search for a way to understand ourselves and our infinity of relationships, and to seek policies that are consistent with our way of looking at life and of living.

Heretical branches

Indeed, if both Marxism and theoretical capitalism are but heretical branches of the Judaeo-Christian trunk, then our loss of interest in the heresies may coincide with a renewed consideration of the main body of our heritage.

The revival of religious concern since the last war, though much of it may be extremely distressing to the genuinely pious of all persuasions, nonetheless reflects a groping for something that is real, important and enduring. It is in this light that we should regard the implications of our national desire to be moral in our public policy and especially in our foreign policy. That is why we bestow such enormous political strength upon the political leader we regard as a good man, no matter what his other qualifications, or lack of them, may be for the functions of his office.

The ancient battle between the "idealists" and the "realists," between the "children of light" and the "children of darkness" remains. Basically it is a theological and philosophical dispute whose surface manifestations will not be in broad doctrines but in particular issues. Nevertheless it is a most fundamental dispute whose existence we can only suggest, but whose nature we cannot here explore. Since it is carried on within the free world, let us hope that it escapes the bitterness that usually attends family arguments over good and evil.

Let us sum up. Although the ideological conflict of socialism and capitalism has lost much of its meaning within the European world, including Russia, it continues to be important in Africa and Asia, and wherever peoples or leaders desire the power and affluence of the Euro-American world without having to recapitulate its history.

At the same time, we may be witnessing the beginnings of another stage in the grand debate over basic concepts that have always characterized the restless civilization of the West. ■

Answers to Challenge Quiz

(see page 79)

- | | |
|-------------------------|-------------------------|
| (1) True (see page 67) | (6) False (see page 46) |
| (2) True (see page 8) | (7) False (see page 54) |
| (3) False (see page 60) | (8) False (see page 15) |
| (4) True (see page 64) | (9) True (see page 22) |
| (5) False (see page 39) | (10) True (see page 24) |



WHAT DOES THE CONSUMER GET?

by Ralph Alexander

■ IF OUR MARKETING SYSTEM could be reorganized to include supervision by an all-wise and benevolent dictator, assisted by a staff of highly efficient, selfless devotees of social welfare, marketing costs would no doubt be vastly reduced. However, the likelihood of such paternalistic perfection is fairly remote. It is much more probable that we shall be facing high marketing costs for some years to come.

The available evidence on marketing costs is conflicting. It has not even been established that such costs are on the increase. What is clear is that, while the production processes in our economy have become vastly more efficient and less costly in recent years, our

marketing system has made little, if any, progress in cutting its costs.

On the surface, it seems puzzling that this should be true. Certainly, spectacular changes have occurred in marketing techniques to match the improvements in production techniques. One thinks immediately of the development of market research, the widespread application of the self-service principle, the expanding use of automatic vending and, most significant, the growth of such cost-conscious institutions as the chain store, the supermarket, the discount house and the wholesale house.

But it is a mistake to think of marketing merely as the distribution of goods. Actually, marketing also involves the provision of a

variety of services. Among these are convenience, timeliness, pleasant shopping surroundings, information about products and their use, deferral of payment, repair and maintenance, and advice as to the suitability of specific articles. All of these services are wrapped up with the physical product which the marketing system offers to the consumer. Consequently, many of the costs of marketing arise from these services rather than from the mere handling of the product. If we forget this, we fail to see the picture of marketing costs in its true perspective.

Processes of change

Insofar as these marketing services are essentially personal, they resist the processes of mechanization and automation which have been so effective in reducing production costs. The relatively slow development of automatic vending offers an example of this resistance. Many such devices for cost reductions in marketing must await the slow processes of change in consumer attitudes and habits.

Paradoxically, it is the very atmosphere of change in the marketing environment that has prevented improvements in marketing techniques from becoming manifest in cost declines. In the production sphere of the economy, investments in improved tools and processes have rarely been threatened by eco-

nomic changes outside the production sphere. In marketing, however, the cost-saving effect of internally instituted improvements may be completely nullified by outside changes in the economy.

For example, marketing institutions and activities must follow people. For a long time now the American people have been increasingly mobile. There has been a tremendous shift of population from the country to the urban area and another shift from the "central city" to its suburbs and exurbs. These population shifts tend to break up existing supplier-customer relationships, and they force the marketing system to spend effort and money constantly in order to establish new ones.

Nor does the typical American stay at home once he gets a home established. He dearly loves a trip and will travel incredible distances to take a vacation—or even to play a round of golf, take a swim or see a football game. He expects the marketing system to keep up with him and supply his itinerant wants. He is willing to make it worthwhile for the system to do so regardless of cost.

Another reason why the costs of marketing are so high is that our ideas of marketing services have become steadily more expansive and expensive. We are no longer willing to buy our food from a hole-in-the-wall store with indifferent

lighting and poor sanitary conditions. Now we demand a beautifully designed, well-lighted, richly appointed, spotless emporium with glass walls and polished show cases. Furthermore, it must be conveniently located and have a spacious parking area. Thus, department stores and supermarkets are often located on some of the most expensive real estate around.

We are also insisting that our stores carry a greater variety of products. We are no longer content with the basic products which yesterday made up the bulk of the sales volume of the marketer. Today when a woman wants to bake a cake, she does not necessarily buy the basic ingredients of sugar, flour and lard. Instead she is likely to ask for one of the many varieties of cake mixes which she knows are available. Thus, the store must carry not only the basic ingredients of cake baking but also a multitude of preparations designed to make the task easier.

Greater variety

Until fairly recently, staples such as sugar, flour and lard had a fairly certain and predictable demand. The marketer could thus reduce his stock of these items to the minimum and attain a high turnover of the dollars he invested in them. Now, however, the marketer must keep on hand a greater variety, and hence a greater amount, of

stock. Flour is flour; but cake mix is not just one kind of cake mix. If the lady customer wants to make an angel food cake she does not want to buy a chocolate mix. Thus, each unit in the marketing system must carry enough of each type of cake mix to satisfy demands for it. The greater the number of varieties of a product, the higher the stock investment must be, and the slower the turnover will be. Hence, the cost of marketing the product goes up.

The tendency toward a greater variety of products is not confined to the food business, but is characteristic of most categories of consumer goods. Insofar as these product variations represent real differences that are important to the consumer—such as quality, ingredients and usage—the added marketing costs can hardly be said to be the fault of marketing. Nor should the marketing system be faulted for the added costs of distributing brand differentiations that are not based on solid differences in consumer satisfaction. These can more accurately be charged against our competitive economic system, of which competitive marketing is a part.

The proliferation of products is not entirely a matter of relatively minor variations such as differences in flavor, feel or appearance. Many of the added items are completely new products. Never in our

economic history has the pace of innovation been so rapid. Twenty to 30 years ago, such things as cake mixes, instant coffee, TV dinners, frozen foods and the entire gamut of antibiotics were unknown. They all appeared as new products and today have become commonplace.

It is much more expensive to market new products than established ones. Much of the work of seeking out new product ideas, appraising their profit possibilities and introducing them to the market must be done by marketing personnel. All this adds to marketing costs.

Certain changes now occurring in production techniques also tend to increase marketing costs. Rising labor rates provide a powerful impetus in the direction of increased automation in production. Both of these developments tend to have the effect of making total production costs less flexible in response to changes in volume. This is true because once automatic machines are installed, they represent sunk costs that can only be recaptured if the operations for which they are designed can be carried on at an optimum rate. This throws on marketing the burden of adjusting consumer demand to production capacity. This factor in marketing costs is likely to become more important in the years ahead.

It is not at all improbable that

the pattern of human emotions, wants and aspirations in our society will engender marketing costs that are constantly rising in relation to production costs. As the economic well-being of a society improves, more and more of the sources of physical satisfaction become reasonably well provided as a matter of course. As the standard of living improves, psychological satisfactions become increasingly more important. Thus, it is not an accident that motivational research has assumed so much importance in our marketing activities during recent years. These sources of psychological satisfaction are so numerous and vary so widely among individuals and are often so deeply hidden in the emotional complex that the task of discovering them and appealing to the motives that they govern is a very difficult and expensive one.

Buying confidence

Cosmetics offer an excellent example of products heavily weighted with psychological satisfactions. When a woman buys cosmetics, she does not purchase a mixture of oils, astringents, detergents and perfumes. She buys a sense of confidence in her own allure. The ingredients that add up to a sense of allure cannot be chosen and bought on the wing. And if it takes the consumer a long time to select a product, it

also costs the marketing system a lot of time and money to sell it.

An increasingly prevalent criticism of the marketing system is that goods are sold on the basis of peripheral features rather than on the basis of the services they perform. It is often said, for example, that automobiles are sold, not on the appeal of their basic service as a means of transportation, but on the appeal of such factors as color, tailfins, style and appearance. The truth of this contention is probably due to the fact that car manufacturers have so perfected their skill that the buyer can rely on almost any make to provide adequately the physical satisfaction of being carried from one place to another.

Psychology and subways

Consequently, the chief distinction among different makes of automobiles lies in the extent and kind of psychological satisfactions they provide. After all, transportation per se can be bought at a subway turnstile. It is the other less tangible satisfactions provided by an

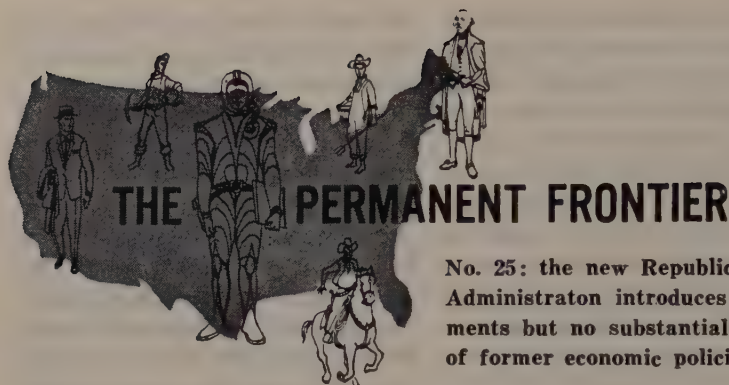
automobile that requires so much time and expense on the part of both buyer and seller.

If this analysis is sound, we may expect that as our standard of living improves, the cost of marketing will continue to rise. The consumer is not necessarily a heavy loser by reason of this shift in sales emphasis from considerations of the basic service of a product to its peripheral characteristics. If a man pays \$100 more for a car with tailfins than he would have to pay for one without them, his money has been wasted only if he fails to get \$100 worth of satisfaction out of the knowledge that he has tailfins.

He may have wasted his money by not spending it for something which might have given him more satisfaction than the tailfins gave him. Likewise, his money has been wasted if he gets no satisfaction whatsoever from tailfins but cannot find a car without them. Unfortunately, within recent years, the latter situation has been too often the case. But the solution to this problem lies outside of the sphere of marketing. ■

Saltwater Springs

NATURAL SPRINGS in our Western states pour up to 15 trainloads of salt per day into the Arkansas and Red Rivers. Public Health Service engineers, using an electronic computer, tracked down springs that flow 10 times saltier than the Atlantic Ocean. The computer was fed thousands of readings showing the salt content at various points along the rivers; from this data the computer pinned down salt sources to a particular area.



No. 25: the new Republican Administration introduces refinements but no substantial alteration of former economic policies

■ THE VICTORY of Dwight D. Eisenhower and the Republican party in 1952 marked a new phase in the economic history of the U.S. Conservatives had been without substantive national political power since the "Golden Twenties" and the early years of the Great Depression. Much had transpired in those 20 years; the world had profoundly and fundamentally changed. The response to these new realities is a clue to the long-range significance of the Eisenhower era.

It was almost as if an eon and not a generation had passed on the international scene. The United States faced the military and economic challenge of the Soviet Union and of world communism. At the same time, new problems and new frontiers were shaped by the twilight of 19th-century empires and the emergence of modern nationalism and social revolution in Asia

and Africa as well as in Latin America.

On the domestic scene, too, far-reaching changes had taken place since the Coolidge-Hoover era. Depression and war, along with the New Deal and the Fair Deal, had resulted in profound structural alterations in the economy and in the economic role of government. Fiscal policy had expanded greatly. New welfare functions had accrued to the federal government. Regulatory agencies had become more numerous and more powerful. Most significantly, the government was committed by law to maintain a full-employment economy. Another innovation was the continual political pressure of increasingly powerful economic blocs, particularly

This is the 25th article of a series in **CHALLENGE** which deals with the history and development of the United States economy.

business oligopolies, labor unions and farm organizations.

In spite of Democratic warnings about the danger of putting government back into the hands of private "selfish" interests, the 1952 Republican platform advocated a sharp change from what was termed the "goal of national socialism," accusing the Democrats of "fostering class strife for political purposes." Conservative Republicans talked in positive terms. They insisted upon shaping a more suitable environment for private investment, and they favored reduced federal expenditures and tax cuts. In general, they advocated a smaller role for the federal government in the national economy, a balanced budget, the funding of the national debt and anti-inflationary measures that would stabilize the price level.

President Eisenhower told South Dakotans in 1953 that "in the last 20 years creeping socialism has been striking in the United States." He further insisted that the Republican Administration had "instituted what almost amounts to a revolution in the federal government as we have known it in our time, trying to make it smaller rather than bigger, and finding things it can stop doing instead of seeking new things for it to do." Policy decisions in several controversial areas revealed the *laissez-faire* bent of the Eisenhower Administration:

- Price and wage controls im-

posed to check serious inflation during the Korean war were removed.

- The Reconstruction Finance Corporation was abolished.

- Quasi-judicial federal regulatory agencies, such as the Federal Communications Commission (FCC), the Federal Trade Commission (FTC) and the National Labor Relations Board (NLRB), were staffed with conservative appointees.

- Tax reform in 1954 was oriented toward stimulating private investment.

- Welfare expenditures remained fairly static except for the broadening of social security legislation. Per capita welfare expenditures by the federal government in fiscal 1958 were less than in fiscal 1938.

- Lower farm price supports, and then flexible price supports, were instituted.

- Private enterprise was encouraged by such diverse actions as the transfer of offshore oil reserves to the states, the selling of government-owned operations such as the Hell's Canyon power project and the amendment to the Atomic Energy Act of 1946, which opened the atomic energy field to private development.

Critics of the Eisenhower Administration condemned many of these actions. One historian saw in them "a return to the pre-New Deal Hamiltonian principle of 'partnership' between business and govern-

ment in the management of the affairs of the state." Many experts felt that the Administration was paying too little attention to social needs and efficient allocation of resources.

Eisenhower conservatism, however, did not imply a rejection of the Employment Act of 1946, which committed the government to maintain full employment. Nor did it imply a rejection of counter-cyclical fiscal and monetary policy, which acted to reverse production and employment declines through increased federal spending.

Sharp break

Here was a sharp break with the fiscal conservatism of earlier generations. Though the 1954 Economic Report of the President stressed that it was "desirable to bring down the scale of government," the same state paper explained that "our society has become so complicated that, quite apart from the large and continuing needs for defense, the government now properly assumes obligations unknown to earlier generations."

The 1955 Economic Report emphasized that "wise and early action by government can stave off serious difficulties later," and, in 1956, the Report stated that government had the "capacity to moderate economic fluctuations without becoming a dominant factor in our economy."

Even though there was much criticism of the particular fiscal and monetary strategies used by the Eisenhower Administration to combat recession and inflation, the widespread use of these tools of economic control suggested that the nation's commitment to full employment was firmly bipartisan. A brief consideration of the Administration's efforts to deal with the recurrent problems of recession and inflation illustrates this point.

The Eisenhower Administration dealt with two recessions: in 1953-54 and in 1957-58. In 1953-54, the difficulties came as a result of a drop in government spending at the end of the Korean war (from \$53.2 billion in the second quarter of 1953 to \$40.5 billion in the fourth quarter of 1954). Four years later, a falling away of exports as well as a cut in defense orders encouraged the decline in plant and equipment expenditures. Unemployment mounted each time; in the second quarter of 1958, 7.5 per cent of the labor force was without work.

In each crisis, such government provisions as social security payments, farm price supports, unemployment compensation and the automatic decline in tax obligations cushioned the drop. Personal expenditures, therefore, fell less than one per cent below the prerecession peaks of both 1954 and 1958.

At the same time, the Adminis-

tration adjusted its own policies to meet each crisis. A sizable tax reduction along with the loosening of credit by the Federal Reserve Board eased the 1953-54 crisis and stimulated investment expenditures. Strategy differed somewhat in 1957-58, as the Administration resisted widespread demands for further tax cuts. But credit was again eased to encourage local and state borrowing as well as investment spending.

Moreover, there were nearly twice as many defense orders in the first six months of 1958 as there were in the last six months of 1957. Also, the federal debt limit was increased. Other spending programs added to the income flow and propped up final demand. Total cash payments to the public by the federal government, therefore, rose from \$80 billion in the fiscal year ending June, 1957, to \$94 billion in the fiscal year ending June, 1959. The budget deficit in fiscal 1959 came to \$12.5 billion, the largest peacetime deficit in the nation's history.

Political ramifications

Even though recovery from each recession was noticeably rapid and gross national product never fell less than four per cent below the prerecession peaks, the political ramifications of each crisis were apparent in the Democratic Congressional victories of 1954 and

1958. The protest vote in areas struck by the recession seemed to confirm the view that urban residents would not be satisfied with anything less than full employment. The reality of the contemporary *political economy* had been underscored.

Adjustment to the implications of a full-employment economy was only one aspect of the economic history of the 1950s. Another aspect was the Administration's serious *political* concern with the possible inflationary costs of maintaining full employment. This problem crystallized in the mid-1950s. The high price levels stimulated by the Korean war returned to normal in mid-1952 and remained fairly stable for four years. Then, between March, 1956, and March, 1958, the Consumer Price Index rose 7.5 per cent.

Economists disputed the cause of the inflation. Some talked in traditional terms of excessive demand, i.e., too much money chasing too few goods. Others felt that the inflation was caused by "cost-push" factors. In other words, the unions had become powerful enough to demand wage increases which were not responsive to the market. Management, too, in many cases, was powerful enough to set "arbitrary" prices on products. In fact, management frequently argued that their high, arbitrary prices were necessary because of the push of wage

costs. In any case, since both labor and other costs were being set outside of market forces, prices were "pushed" up.

Whatever the reasons for the inflation, the Administration acted promptly to halt it. Federal Reserve Board policy between 1955 and 1957 was "tighter" than it had been since the 1920s. Federal spending was cut. For the first time since before the New Deal, there were two balanced budgets in succession: fiscal 1956 and 1957. But despite these restraints, prices continued to rise.

Certain realities became more apparent to the conservatives as they wrestled with the tacky problem of inflation. Economic, social and political stumbling blocs limited their efforts to cut federal spending. Inflation itself increased the budget. Defense expenditures and the rapid obsolescence of military technology added new costs, as did conservative programs of air traffic control, highway construction, medical research and foreign aid. "Open-end commitments," such as the farm price support program, veterans' pensions and "stockpiling" purchases also played a role,

as did increasing "trust-fund" items such as old-age retirement and unemployment compensation.

It became clear that a balanced budget depended more upon the state of the economy itself than on government decisions. Actual bank loans rose between 1955 and the middle of 1957 by \$22 billion. While the government's policy of restraint undoubtedly checked some of the inflation, the price rise of the mid-1950s raised serious questions about the effectiveness of monetary fiscal restraints.

The major question facing the Administration as the U.S. enters the decade of the 1960s has been aptly phrased by Edwin L. Dale, economics editor of *The New York Times*: "Can they (the Administration) in present conditions—cold war, open-end commitments, an ornery national debt, a liquid banking system—do anything to stop the rise in prices before the feared boom-bust cycle occurs? Can they effectively tackle inflation by the classic methods, even assuming the classic methods can work in the day of Big Labor and Big Business?" ■

**NEXT MONTH: unresolved problems of the Fifties
indicate new frontiers for the Sixties**

When a policy is needed—

HOW USEFUL IS RESEARCH?

by Gerald L. Steibel

■ THE RECENT angry exchanges over the “missile gap” have revealed another and more fundamental gap between the magnitude of the decision-maker’s difficulties and the adequacy of his resources for resolving them. And of all his resources, one of the more important is knowledge. How and to what extent the resources of research can be transmuted into the wisdom of policy may be the key not only to the missile gap, but to most of the major policy decisions that need to be made now and in the future.

The policy-maker’s difficulties begin with the kind of warfare he is engaged in: a partly psychological war in which mathematical weapon ratios tell him little that is conclusive. Mere *talk* of weakness, as the Pentagon has warned consistently, can impair this country’s deterrent power

just as effectively as loss of actual firepower. For Soviet action can use the missile gap for any purpose—from “conventional” warfare and subversion to propaganda.

In this case, what the policy-maker wants to know is not merely how large the missile gap is, but what it means to ourselves and to the potential enemy. How will the enemy react and how should we react? Facts alone cannot give the policy-maker an answer. What he wants are *relevant facts*—that is, facts that tell him what it all means and what he should do.

Judged by this standard, most present-day research is inadequate. We have a wealth of knowledge about Soviet agriculture, industry, government and even methods of policy-making. But no one knows what Khrushchev will

do, and no one can prescribe with confidence the appropriate American action. Is it possible, then, to bring research into the inner circle of decision? If not, what are the limits of its usefulness?

One reason why some people feel research can be related to policy decisions in warfare—psychological or actual—is that research has been successfully applied in business to the policy decisions of corporate managers. The business executive's media and market researchers tell him about customer preferences; his developmental researchers work up product models to meet those preferences; his operations researchers can mathematically analyze production and distribution activities to help him see the consequences of different possible ways of operating. For the businessman, research has been useful because it has produced relevant information bearing directly on his decision.

How much knowledge?

But war is an infinitely more complex operation than production or marketing. Take, for example, the use of mass communications media as a tool of research in the two areas. In business, the audience researcher who attempts to evaluate the effectiveness of a certain TV advertisement has a definite task: to find the relationship between the

number of viewers and the share of the market captured by his product. If he can show statistically a positive relation between these two factors, he may suggest ways to exploit a particular kind of ad or program.

The audience researcher in political propaganda warfare can, with a little more difficulty, come up with audience preferences for specific program types. But he has nothing to relate this information to. Theoretically he should relate listening preference to national policy. But there is no way to relate listener preference to a particular plan that would constitute a national policy.

The problem in relating research to policy-making is that the imperatives under which the researcher operates are substantially different from the imperatives of policy-making. Traditionally the researcher is committed to basic, nondirected research—that is, he is committed to independence in the selection of his problem as well as in the techniques of researching it. He wants to know what *is*, and he wants to seek out all the information available about what *is*.

The policy-maker, on the other hand, wants to know what *to do*, not what *is*. Moreover, his problems are imposed upon him; he cannot select them. Also, he frequently cannot wait to "know

everything," as there is a limit to the length of time he can take to make his decision. Finally, his decision must often be influenced by a myriad of considerations, such as the money he has to spend, the limitations of his personnel and whether he can justify his actions to the public.

These imperatives involve considerable risk-taking, that intensely and exclusively human undertaking which cannot be delegated to any machine and which is the essence of every decision of man. More research and more knowledge may clarify possible courses of action. But it cannot eliminate the element of risk from decision-making.

Assimilating information

Actually, the core of the problem of relating research to policy is in the apparatus for screening and assimilating the knowledge accumulated by the researcher. As the recommendations work their way up through channels, more and more of the researcher's original contribution is assimilated by new and competing sources of information, or parts of it are rejected as irrelevant. It therefore grows increasingly difficult for the researcher to exert personal influence as the decision-making reaches higher channels. In the end it may be only a single conclusion or insight that remains

intact to influence the decision of the policy-maker.

Robert Lovett, testifying before a Senate committee, has thoughtfully drawn attention to the danger that subordinates may be overinsulating the President from the realities of his problems. But even a fuller degree of information will not alter the fact that the researcher usually disappears personally from the policy chain early in the game and that his information then competes with other sources of authority.

While research is not deliberately ignored, the fact is that in many areas of policy-making, the role of research is not even considered to begin with. The Senate National Policy Machinery Subcommittee, for example, gets testimony on what the country ought to do from two bankers, a corporate president, a college president—not from the researchers themselves. An executive in an international propaganda operation relies upon news reporting and analysis in the better journals. The reports from the Rockefeller Brothers Special Studies Project tap business, labor and university executives for their panels. These sources of information and advice are less exhaustive and scholarly than those coming out of research, but they are topical, digestible and relevant.

On a somewhat lower level, the

decision-maker turns to his own staff. The staff paper may be fed by research, but it makes no pretense at being research. There is often more "hunch" in it than "data," but under certain circumstances it can be very much to the point. In the final analysis, the decision-maker may rely upon his own intuition. Experience and survival have, he believes, given his intuition a residue of soundness; he sees justification for believing that his opinion is probably as good as anyone else's.

But the amalgam of opinion, no matter how authoritative, cannot rightly substitute for research, and there is little probability that it will. The conclusion seems to be that research will continue to exert an influence that diminishes upward through the policy process. The influence of research probably cannot be increased until the researcher is willing to relinquish some of his independence in choice of subject matter in order to concentrate on matters of relevance to the policy-maker.

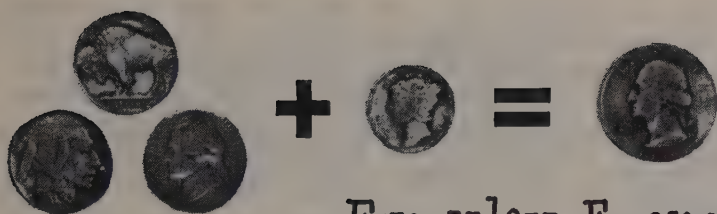
The topical issues

Actually, many researchers are beginning to take a hand in the topical issues. Some come to "consult" at healthy per diem fees. Some go into teams, such as the Council on Foreign Relations and the Committee for Economic Development, organized for the anal-

ysis of major problems. Private groups like the Rockefeller and Gaither committees have research squads digging out the facts. More recently, researchers at leading institutions worked on contract with the Senate Foreign Relations Committee, turning out 15 studies which aimed in part to "suggest, and if possible determine, feasible ways to . . . promote the basic foreign policy aims of the United States."

In these ways, research is beginning to become more relevant for the policy-maker. One important influence for easing the strain between the two disciplines of policy-making and research are the research-trained people who are appearing on more and more policy staffs as mediators. The prospects are that the gap will continue to narrow because every responsible policy-maker feels the need for more knowledge with which to confront his awesome problems, and many researchers are impelled by the lure of action and power to give up some of the austerity of the pursuit of truth.

What is needed, and what is being forged painfully and perhaps too slowly, is a definition of the legitimate rules of both disciplines. If the point at which the two have relevance for each other can be charted and accepted, there is good reason to hope for long and healthy coexistence. ■



Everyday Economics

■ **TAX REFUNDS** are normally received any time from three weeks to three months after the return is filed. If an expected refund has not been received by May 30 the taxpayer should inform his District Director of Internal Revenue. Failure to receive a refund immediately does not, in most cases, mean that an error has been found, but rather that the tax return is among those selected for special processing.

Looking at labels



CONSUMERS are discovering that the Textile Labeling Act, in effect since March 3, does not clear up the mystery of what qualities are attributable to the various synthetic fibers. The Act is helpful in establishing 16 generic names (indicating chemical structure and composition) that must be used to identify the fiber. While trade names for fibers may still be used, they

may be printed in type no larger than the generic name. Labels indicating fiber composition must be attached to most garments as well as to such items as bedding, floor coverings, fabrics and yarns. The label must list *in order of predominance* all fibers comprising over five per cent of the fabric. Fibers which make up five per cent or less may not be listed—thereby reducing the manufacturer's opportunity to misrepresent the fabric.

Career preview



STUDENTS looking for summer employment would do well to take a job related to the field in which they later plan to start their career. Several federal agencies offer summer jobs to students to serve as assistants to regular professional personnel. A civil service examination is not required, but the student must be taking courses in the field in which he is seeking employment.

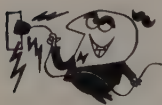
Students may work no more than 130 days with a maximum pay of just over \$1000. Those interested should write directly to the personnel director of the agency in which they are interested.

No dancing



COMMUNITY swimming clubs which operate pools on a nonprofit basis are exempt from federal taxes on income from members' dues. The Internal Revenue Service warns that federal "dues" taxes *are* levied on clubs that provide dancing facilities. A recent ruling interprets this law more strictly: a club will lose its tax exemption—even if it provides no dancing facilities—if its premises are used for occasional dances by groups which provide their own record player, etc.

Travelers' warning



BEFORE using an American - made electrical appliance when abroad, tourists should inquire about the type of current used in the area. Many countries are changing over from 110-volt to 220-volt current, so that current in one section of the country (or city) may differ from that in another section. American-made appliances, which

are equipped with flat-pronged plugs, will work on 110-volt current when used with a round-pronged adapter plug which fits foreign-type receptacles and outlets. Transformers can be obtained to convert 110-volt current to 220 and vice versa, but they are heavy and expensive.

Exotic plants



AMERICAN tourists who intend to bring back foreign plants, bulbs or seeds, etc. from overseas, must obtain a permit before leaving the U.S. Customs officials will confiscate such items under a quarantine program if no permit is presented. Permits may be obtained from the Agricultural Research Service, U.S. Department of Agriculture, Washington 25, D.C.

Off the record



VETERANS who discover an error in their military records can have the error corrected at any time up to three years *after its discovery*. This means that old records can be corrected to remove an error or injustice that may have rendered the veteran ineligible for certain benefits from the Veterans' Administration.—S. T.



The End of Ideology. Daniel Bell.
416 pp. Glencoe, Ill.: Free Press.
\$7.50.

•Bell, a former labor editor of *Fortune* magazine, who currently teaches sociology at Columbia University, believes that the 1950s marked the "end of ideology." The failure of the prevailing right and left-wing ideologies either to explain the present reality or point to future possibilities has left Americans with few dogmatic beliefs. On the whole, Bell approves of this trend which he thinks will leave us freer to adjust to a rapidly changing environment.

Much of what Bell has to say is a healthy reaction against the fashionable concern over affluence and overorganization. On the other hand, it is significant that nowhere does he come to grips with the problem of "competitive coexistence." For how does a "nonideological" society like ours compete with the simplifying visions of true believers?

* * *

The End of Empire. John Strachey.
351 pp. New York: Random House.
\$5.00.

•Strachey, a former War Minister in the Labour government, views the almost complete dissolution of

the British Empire since 1945 as inevitable and something of a blessing. Twentieth-century imperialism didn't pay in a strictly economic sense. While a tiny minority of British businessmen may have reaped great profits from overseas ventures, the overwhelming majority derived almost no pecuniary benefit from imperialism. As for the time-worn notion that without her imperial domain Britain would be an impoverished island, Strachey cites the unprecedented prosperity of a postwar Britain shorn of her colonies. He is highly critical of those former Empire-firsters who now advocate that Britain cut taxes by sharply reducing her armed forces and her economic commitments to former colonial areas. Britain still has an important world role to play mainly through the Commonwealth, and the economic and cultural influence she still exercises in her former colonies. Although this work is designed to inject new ideas into the British Labour party, there is nothing here that is really very original.

* * *

The Thief in the White Collar.
Norman Jaspán. 254 pp. Philadelphia: J. B. Lippincott. \$4.95.

•This book tells the story of embezzling—who does it, how, why and

what can be done about it. Since it is estimated that embezzlers will steal more than \$1 billion this year—more than twice the take of all professional thieves—the book represents a very timely and necessary effort.

The basis of the problem lies in the moral torpor of our society. This is reflected not only by the extent of embezzling operations carried on by ordinary citizens, but also by the laxness of company managers. Jaspan asserts that management rarely seeks to investigate employee honesty or to limit temptation by putting strict controls on all phases of company operations.

Solutions to the problem are advanced in an excellent addendum which outlines a system of preventive measures for management. One rather wishes that these solutions had received greater amplification throughout the book, which tends to sag in the middle from the weight of too many stories describing specific embezzling operations.

* * *

The Stages of Economic Growth.
W. W. Rostow. 179 pp. Cambridge University Press. \$1.45.

•This important book has already aroused considerable controversy on both sides of the Iron Curtain. This is understandable. Rostow develops some generalizations concerning economic growth that will not please ideologists—especially the Marxist variety. According to Rostow, the “big divide” between growing and nongrowing economies is the ability of the former to maintain a *regular* flow of new technology.

But before a “traditional society” can achieve such a “take-off” into economic growth, all sorts of political, social and psychological changes must take place. Rostow’s discussion of these changes (which he illustrates with cases) is highly interesting and nontechnical. (For his discussion of some aspects of the problem, see *Challenge Interview*, page 29.)

* * *

The Future as History: the historic currents of our time and the direction in which they are taking America. Robert L. Heilbroner. New York: Harper & Brothers. 209 pp. \$4.00.

•Americans have seldom questioned that the future would be even brighter than the present because we would *make* it brighter. Part of our confidence rests on the progress of science and technology, the rest on our confidence in the superiority of free institutions. Today we are better off than we were 50 years ago and we see no reason why our progress should not proceed at an even more accelerated pace.

This book provides an antidote to such facile thinking. Heilbroner directs our attention to some less hopeful developments: the trend away from capitalism, the end of our national “security” in time of war and the widening gap in international living standards.

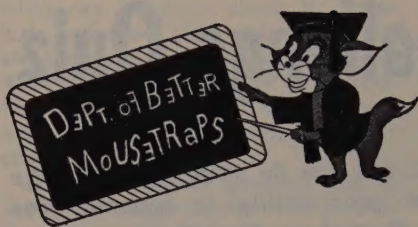
The author warns that “history,” which belongs to the “have nots” as well as to us, can be expected to go against us for some time. Our historic optimism is no longer a national virtue, Heilbroner cautions, but a dangerous national delusion. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 60.

- (1) Per capita welfare expenditures by the federal government were less in fiscal 1958 than in fiscal 1938.
True ☐ False ☐
- (2) If management owns a large share of a corporation's common stock the firm is unlikely to diversify.
True ☐ False ☐
- (3) Ideological debates are on the decline throughout the free world.
True ☐ False ☐
- (4) The costs of marketing a product are increased if automatic machinery is installed on the production line.
True ☐ False ☐
- (5) At the time of its creation in 1946, the Joint Economic Committee was primarily intended to make projections of U.S. economic growth.
True ☐ False ☐
- (6) During the recent steel strike, intellectuals deplored the public's neutral attitude.
True ☐ False ☐
- (7) Since Ghana attained independence, the gradual withdrawal of foreign business from that country is largely a result of the government's Africanization policy.
True ☐ False ☐
- (8) The Defense Production Act forbids using the U.S. strategic stockpile as a price support device.
True ☐ False ☐
- (9) The progressing managerial revolution tends to eliminate the spoils system.
True ☐ False ☐
- (10) Agricultural output in the Soviet Union is 80 per cent that of the United States.
True ☐ False ☐



The Home Workman: Heavy-duty electrical outlet box comes with 25- or 50-foot cable, eliminating the need for long lengths of cord on power tools. As many as four power tools can be plugged into the box at once . . . Paint-scraping guide adjusts to three positions to fit over the painted framework of doors and windows making it possible to scrape off excess paint without damaging the frame. . . Combination stud finder, plumb bob and magnetic compass is useful for locating metal objects in walls, tires, etc., and for hanging pictures.

* * *

Around the House: For homes with wood paneling, wall plates for electrical switches and outlets made to match paneled walls. The unfinished plates are available in a variety of wood and in single, multiple and combination type outlets. . . Electronic music minder plugs into any outlet to shut off the entire hi-fi or stereo system (not just the turntable) after the last record plays. . . Window shade pull-tab available in plastic, brass or silverplate, clips onto any shade, replacing shade cords. . . Plug lock prevents accidental disconnection of electrical appliances and protects children from possible harm. The lock is adjustable to fit any type of plug.

Children's Corner: Electronic "baby sitter" plugs into outlet in baby's room and transmits the slightest sound to any radio within 300 feet (even a portable or car radio). . . Tumblebug race consists of an elevated race track made of plastic. Colored Mexican jumping beans are placed in special grooves to tumble down the incline to the finish line. . . Bridge and turnpike construction set of strong plastic lets future engineers build several types of bridges and highway approaches. . . Space helmet of plastic has crystal earphones enclosed in the headband and a telescope antenna on top. The radio, which will receive several stations, fits into a pocket or on the special "flying belt."

* * *

Sporting Life: Portable absorption-type refrigerator, with no moving parts or motor, can be powered electrically from low-voltage electrical outlets or from a small can of propane gas. It will maintain a temperature difference of 50 to 95 degrees. . . Portable fire alarm that can be taken along on vacation trips is about the size of a standard flashlight and is powered by two standard flashlight batteries. It contains a screaming siren that can be heard one-fifth of a mile away. The unit can be hung from a nail and needs no wiring.

* * *

From the World of Industry: Process for manufacturing concrete pipe right in the ditch by feeding concrete around inflatable forms. Pipe can be laid at rates up to 12 feet per minute.

* * *

Write to CHALLENGE magazine for additional information. ■